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FORM 10-K

Annual Report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the year ended: December 31, 1998   Commission File Number: 000-24435

MICROSTRATEGY INCORPORATED
(Exact Name of registrant as specified in its charter)

DELAWARE   51-0323571
(State of incorporation)   (I.R.S. Employer Identification Number)

8000 Towers Crescent Drive, Vienna, VA   22182
(Address of Principal Executive Offices)   (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   Name of Each Exchange on Which Registered
     -------------------   ---
           None   None

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

        Class A Common   Stock, par value $.001 per share

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 preceeding 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 [X] No [ ]

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

The aggregate market value of the voting stock held by non-affiliates of the
registrant (based on the last reported sale price of the Registrant's Class A
Common Stock on March 1, 1999 on the Nasdaq National Market) was approximately
$198,429,204.

The number of shares of the registrant's Class A Common Stock and Class B Common
Stock outstanding on March 1, 1999 was 7,765,084 and 30,073,374, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 1999 Annual Meeting of
Stockholders, for its 1999 Annual Meeting of Stockholders, are incorporated by
reference into Part III of this Form 10-K.

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MICROSTRATEGY INCORPORATED

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CERTAIN DEFINITIONS

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

FORWARD-LOOKING INFORMATION

   This Annual Report on Form 10-K contains forward-looking statements within the
meaning of Section 21E of the Securities Exchange Act of 1934, as amended. For
this purpose, any statements contained herein that are not statements of
historical fact, including without limitation, certain statements under "Item 1.
Business" and "Item 7. Management's Discussion and Analysis of Financial
Condition and Results of Operations" and located elsewhere herein regarding
industry prospects and the Company's results of operations or financial
position, may be deemed to be forward-looking statements. Without limiting the

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foregoing, the words "believes," "anticipates," "plans," "expects," and similar
expressions are intended to identify forward-looking statements. The important
factors discussed below under the caption "Business-Risk Factors," among others,
could cause actual results to differ materially from those indicated by forward-
looking statements made herein and presented elsewhere by management from time
to time. Such forward-looking statements represent management's current
expectations and are inherently uncertain. Investors are warned that actual
results may differ from management's expectations.

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PART I

ITEM 1. BUSINESS

OVERVIEW

   MicroStrategy is a leading worldwide provider of enterprise DSS software
applications and related services. DSS Suite provides Global 2000 enterprise and
other user communities with timely answers to mission-critical questions. It
enables users to query and analyze the most detailed, transaction-level
databases, turning data into business intelligence. In addition to supporting
enterprise users, our products extend DSS applications beyond corporate
boundaries to customers, partners, and supply chain constituencies. DSS Suite
is deployed across a broad range of pull and push technology such as the
Internet, e-mail, telephones, pagers and other wireless communications devices.
Our DSS Suite also provides the technology foundation for the deployment of
personalized, consumer-focused e-commerce applications.

INDUSTRY BACKGROUND

   Online Transaction Processing; Construction of Data Warehouses. The
development of the DSS industry has been made possible by the widespread
implementation over the past ten years of online transaction processing systems
that create large volumes of transaction-oriented data. Online transaction
processing applications include standardized resource planning packages from
vendors such as SAP, Baan, PeopleSoft, Oracle and J.D. Edwards, as well as
custom and semi-custom systems which have been created to process transactions
such as securities trading, bank deposit withdrawals, airline reservations,
mortgage payments, wire transfers, retail sales, credit card payments and
telephone billing.

   The transactional data created by online transaction processing systems is
typically detailed and updated regularly, and has a short utility time horizon.
In contrast, data required by decision support analysts are typically detailed
and have a lengthy utility time horizon. In order to provide data to decision
support analysts, relevant transactional data must often be extracted from
online transaction processing systems, cleansed, encoded, summarized and
uploaded into a database known as a data warehouse. Data warehouses have been
developed in order to store the vast historical logs of transaction details

generated from one or more online transaction processing applications. Data warehouses are substantially larger than the online transaction processing databases, as data warehouses contain a broader scope of transaction data spanning longer periods of time. The majority of Global 2000 enterprises have constructed or are constructing data warehouses to serve as an information foundation for analyzing and optimizing their business operations. Forrester Research predicts that the decision support market is projected to grow from $1.6 billion in 1998 to $3.6 billion by 2001.

   The Enterprise DSS Market Opportunity. The construction of data warehouses from online transaction processing applications has created the market opportunity for scalable, sophisticated and maintainable DSS applications that can extract highly useful business information from data warehouses. The mission of DSS applications is different from but complementary to that of online transaction processing applications. While online transaction processing enables companies to "do business" by processing transactions that are similar in nature, cost, frequency and complexity, DSS applications enable companies to "do business better" by allowing rapid, effective and comprehensive data analysis. Using online transaction processing applications, companies may mail proposals to prospects, bill customers, reverse fraudulent charges or book airline seats. In contrast, using DSS applications, companies may select prospect lists to receive direct mail, allocate inventory to sell to customers, identify potentially fraudulent charges or allocate airline seats among various travel routes. Business analysts often employ DSS applications to translate business questions into database-interpretable queries. DSS applications mathematically process query results to provide the business analyst with insightful answers to their questions. "Enterprise DSS" refers to applications designed to answer questions at all levels of detail, ranging from minute, operational questions to large-scale strategic assessments, targeted at all types of decision makers within an enterprise.

   Enterprise DSS applications help users address critical uncertainties affecting their business by answering highly focused performance questions. These questions vary by industry. Examples include:

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   Retail. What products or groups of products should be sold? Where? At what price? How much shelf space should be allocated for specific products? How much promotion should each product receive? Which products sell well together? How much inventory should be carried? What are the primary customer characteristics?

   Banking & Finance. Who should be targeted for direct marketing efforts? What products are most likely to appeal to existing customers? How profitable are existing customers? Which customer groups are credit risks? What is the proper pricing strategy for a given set of financial products? How much fraudulent activity is occurring? How efficiently are underwriters and credit officers performing?

   Healthcare. What is the range of outcomes for a given treatment? How frequently is this treatment prescribed? Which drugs, hospitals, doctors, healthplans are most effective? Which patient groups are most at risk? How efficient and effective is a given technique for treating a specific illness?

   The promise of Enterprise DSS applications is to offer decision makers across a broad range of industries the opportunity to ask and answer mission-critical questions about their businesses using transactional data assets that have been captured but not exploited to their fullest extent.

   Factors Driving Enterprise DSS Development. Despite the significant promise of Enterprise DSS applications, until recently, a number of technical and cost constraints had impaired development of the DSS market. The increase in electronically captured and stored transactional data, together with recent advances in software, hardware and networking, have converged to help resolve these technical and cost constraints. Factors driving Enterprise DSS development include:

   Increased Electronic Capture of Transactional Data. Electronically captured data is critical to Enterprise DSS applications. In industries such as retail, telecommunications, financial services and healthcare, an increasing percentage of customer and supply chain transactions are captured and stored electronically. The rapid growth in the electronic capture of business transactions and the increased availability of related profile data in the parties or products involved in each transaction are providing a rich data

foundation for the growth of Enterprise DSS applications.

   Improved Relational Database Management Software. Relational database management system technology has become accepted as the primary data storage and access platform for Enterprise DSS applications. Traditionally optimized for online transaction processing applications only, relational database management system technology has been improved specifically for DSS applications. Such improvements have removed many of the database size, manageability and query performance constraints that have traditionally made Enterprise DSS development difficult.

   Improved Performance-to-Price Ratio of Computing and Storage Hardware. The widespread availability of scalable hardware from a variety of server vendors has produced significant improvements in server price and performance. In the early 1990's, building and managing databases of one to five gigabytes of stored data was considered typical. Over the past four years, symmetric multi-processing, or SMP, servers running Unix have achieved commercial acceptance, providing relational database management system vendors with the first non-proprietary hardware platforms capable of supporting enterprise-scale databases which considerably exceed five gigabytes. Based on a survey of 50 companies in the Fortune 1,000 published by Forrester Research, the average data warehouse was 132 gigabytes in 1997 and is expected to grow to 259 gigabytes by 1999. SMP servers have provided the capacity to store index, aggregate, query and manage these large data volumes, and, because no one hardware vendor controls the market for these servers, the capacity is available on a cost-effective basis. Further developments, such as massively parallel processing servers, or MPP servers, are expected to provide substantial improvements in performance over SMP servers, and are also now becoming commercially available from a wide variety of hardware vendors.

   Improved Networking Protocols and Infrastructure. The emergence of protocols such as TCP/IP, HTML, ActiveX and Java, combined with commercially available servers and browsers supporting these protocols (collectively comprising the infrastructure of the Web), bandwidth, security products, authoring tools, administrative suites, access devices and third party expertise have substantially decreased the cost of deploying multi-user applications such as Enterprise DSS applications. The corresponding advances in usability, reliability, maintainability and connectivity have accelerated the commercial acceptance of Enterprise DSS applications by making such deployment less risky, less expensive and less time-consuming for information systems organizations.

   The Emergence of New DSS Applications. Synergies produced by the combination of improved database software, abundant computing power and efficiently connected networks are resulting in a dramatic increase in overall DSS market potential and growth rate. International Data Corporation projects that the market for Internet-related DSS applications will grow from $970 million in 1998 to $2.3 billion by 2001, and based on its survey of 50 Fortune 1,000 companies, Forrester Research estimates that 80% of the survey sample will have Web access to the databases by 1999. As these advances converge, the value of DSS applications (and therefore the size of information technology budgets which support their development) is being enhanced by increasing the number of users, the frequency of use and the importance of the information obtained and by transforming under-utilized data into revenue-generating assets, not simply measures for cost control. These advances are also increasing the size of the market by enabling entirely new types of applications to be deployed to new constituencies from the same central data warehouse. In particular, the following three new classes of DSS applications are becoming factors in the growth of the DSS market.

   Remote DSS. Remote DSS applications provide information to operational professionals throughout an enterprise and enable them to improve performance on a routine basis. Potential users include managers and other professional staff throughout the sales, marketing, manufacturing, logistics, finance, human resources and technology functions regardless of their geographic location. Although an enterprise rarely has more than a few hundred centralized analysts and executives for any given DSS application, the same enterprise may have thousands of remote enterprise users, spread across dozens, hundreds or even thousands of locations. For example, a Remote DSS application that profiles customers and provides relevant sales information allows account executives located across a business organization to identify problem accounts, discern abnormal trends in their territory and proactively manage sales calls.

Supply Chain DSS. Supply Chain DSS applications allow and encourage trading partners to give preferential treatment to one another in exchange for greater certainty and visibility up and down their value chains. In order to obtain the information that enables this visibility and certainty, partners may want to offer more favorable terms, invest more in co-marketing, make available increased levels of supplies, provide more shelf space or pay higher prices. Potential users include a firm's vendors, distributors, partners, outsourcers, resellers and financing sources. The number of potential Supply Chain DSS application users can range from hundreds to tens of thousands. For example, a DSS application that provides access to retail sales information would be valuable to the manufacturers and distributors who stock the shelves within each store. This information can be used to design new products, refine marketing campaigns, develop optimal pricing schemes, rationally allocate inventory and proactively schedule factory production.

Commercial DSS. Commercial DSS applications offer customers a new value-added information service that can result in improved pricing, greater market share, longer customer retention or a new revenue stream for the owner of the DSS application. Information systems have been successfully bundled with products and services over the past decade, although largely in the context of online transaction processing applications such as automated teller machines, voice response units and ticketing reservation systems. Those firms in the best position to exploit the opportunities of Commercial DSS applications include major banks, financial services, healthcare providers, retailers, publishers, utilities and travel service providers all of whom have large volumes of customers who must make intricate decisions on a routine basis. Many of these systems have the potential for hundreds of thousands, or even millions, of users. For example, healthcare providers that use DSS applications to offer outcome analysis for various combinations of patients, treatments, drugs, hospitals and doctors could provide patients with substantial peace of mind, possibly encouraging them to be treated by that provider.

Consumer DSS. Consumer DSS applications enable organizations to present consumers with personalized services and product offerings based on a profile which may include past selections and purchases by those consumers or their peers. Consumer DSS applications use these profiles to deliver highly targeted product offerings and information services on demand via the Internet, or automatically via e-mail, telephones, pagers, and other wireless communications devices. By integrating these personalized services and product offerings with e-commerce applications, organizations can sell products and services, obtain consumer approval, or confirm the delivery of information. For example, a consumer could receive an e-mail from an online retailer two weeks before their nephew's tenth birthday offering to sell by return e-mail the top three selling toys for ten-year-olds in the nephew's town.

CHALLENGES FACING ENTERPRISE DSS DEVELOPERS

Notwithstanding the market potential for DSS applications, attempts to build and deploy Enterprise DSS applications have traditionally been hampered by a variety of factors, including the following.

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Optimal Query Generation Is Technically Challenging. Although Structured Query Language, or SQL, has been held out as a universal software standard to enable database queries, each relational database management system vendor has added extensions and created a SQL interpreter that favors certain queries. In many cases, the same SQL will not work against two different relational database management systems and in most cases, the same SQL will not be optimal for both. Changes in the relational database management system version, data warehouse design, query profiles or application requirements may require costly and time-consuming revisions to the SQL execution plans. Since relational database management system vendors are constantly seeking to gain competitive advantage for their particular database engine, severe maintenance demands have been imposed on those firms developing their own DSS applications that generate SQL directly against the relational database management system. Certain DSS tools force the designer to "hardwire" application logic directly against the logical database schema, resulting in either a "brittle" solution that may preclude any future enhancements to the database, a "crippled" solution that prevents many types of analysis from being implemented, or a "slow" solution because optimal query response requires dynamic repathing at runtime.

Administrative Tools Are Lacking. Companies need to deploy a multitude of

applications to a variety of constituencies, each with their own set of security and access privileges. These constituencies need to share the same data and application reporting objects, while using them to perform different tasks. Users also require tools for version control, customer billing, performance management and tuning, usage assessment, application maintenance and mass upgrades. Because the DSS market is relatively new and still developing, many of the administrative tools that are taken for granted in the online transaction processing market are still missing. Given the lack of management tools, it is quite challenging to scale up a workgroup application meant to serve a small, localized set of users into a family of DSS services.

   End-User Application Protocol Interfaces Are in Flux. Currently, users interact with their DSS applications through a variety of interfaces, including:

   . native Windows applications that are tailored to the power-user or analyst;

   . executive information system interfaces;

   . printed reports;

   . Microsoft Excel add-in modules;

   . Web browsers supporting only HTML, Java, Active X or various combinations
     of these protocols;

   . custom interfaces constructed in Visual Basic, C++ or other programming
     languages;

   . Microsoft Access; and

   . other Microsoft Office applications, such as Word or PowerPoint.

   The optimal interface is a function of the user, its level of comfort with the DSS application, the client hardware and the client operating system. Since these factors are continually changing, it has been and remains unlikely that any dominant interface will emerge. Accordingly, DSS developers are required to develop applications that are compatible with a number of different application protocol interfaces, or APIs, without the emergence of clear standards. This interface flux introduces additional design, development, quality assurance and support requirements into the typical Enterprise DSS project.

   Certain DSS Toolsets Are Not Scalable. A number of DSS vendors have developed OLAP and hybrid OLAP database toolsets in an attempt to solve data warehouse design and query generation challenges. In contrast to relational OLAP technology, OLAP and hybrid OLAP solutions require the creation of intermediate data caches or proprietary, non-relational database management systems that provide the basis for their analytical capabilities. These proprietary databases have traditionally been optimized for the type of summary analysis that a financial auditor or executive would find valuable in the context of a planning/budgeting review, and their design reflects explicit trade-offs between performance, simplicity, power and flexibility. Due to the rapid increase in the size of decision support databases in recent years, the design constraints of OLAP and hybrid OLAP architectures have become increasingly visible. For

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example, these "solutions" may truncate the range of schema designs (which are the physical and logical models of how the data should be stored within a database), limit data volumes, limit the breadth and richness of a data set and require indexing, consolidating, caching and loading schemes that are prohibitively expensive for Enterprise DSS applications.

   Published benchmarks of OLAP vendors have seldom attempted to analyze more than one gigabyte of input data. However, market research suggests that the typical data warehouse contains in excess of 100 gigabytes of input data. Thus, while very well suited for solving certain decision support problems, many currently available OLAP toolsets are optimized to analyze datasets which are two orders of magnitude smaller than those required for Enterprise DSS applications.

   Existing DSS Tools Lack Features. Multi-dimensional analysis performed on a large, relatively amorphous relational database management system can prove quite challenging due to the stresses placed on the application server, network and client interface during the analytical process. The tools typically used for

DSS application development have been designed to satisfy a lowest common denominator requirement--making certain assumptions about the volume and nature of the data along with the complexity of analyses in order to simplify the engineering challenges. Most do not allow the designer the ability to articulate the sophisticated queries necessary for granular transaction-level analysis (such as fraud detection, market basket analysis, call detail analysis, database marketing, credit analysis and patient outcomes analysis). Others lack object-based development environments, preventing developers from reusing standard application logic. DSS tools may limit the range of dimensionality, attribute richness, hierarchical choices, and filtering options available to the end-user. They may lack advanced analytical capabilities such as rankings ("top 10 vendors by department"), decilings ("bottom quartile of customers in sales"), time-based calculations ("percent change over the same period last year") and multi-dimensional calculations ("product contribution to division profitability"). Many tools also lack sophisticated SQL generators and are forced to rely upon intermediate data caches that are created on the desktop or application server in order to perform their analysis. These caches create network and CPU bottlenecks that prevent the execution of certain queries and slow the performance of the MPP and SMP servers storing the database.

   The Existing Relational Database Management System Market Has Been Fragmented. We believe that the data warehouse market has been fragmented. Supporting the multiplicity of relational database management system APIs, as well as the interface APIs, is difficult without incurring significant sacrifices in functionality and scalability. Global 2000 enterprises, value added resellers, data syndicators, original equipment manufacturers and system integrators require DSS platforms that run well against relational database management system platforms such as Oracle, Informix, Sybase, Tandem, Teradata, IBM's DB2/390, DB2/400 and DB2/UDB and Microsoft's SQL Server and Access. Providing this portability may not be desirable or even possible for DSS vendors that have a disproportionately large investment in one of the competing relational database management system standards. Even DSS vendors that claim to be "open" often have not invested the resources necessary to provide scalable performance against each of these databases.

   Essential Enterprise DSS Services Are Scarce. Most relational database management system vendors have tended to design their products for online transaction processing performance, rather than DSS performance. As the data warehousing market began to grow, the vendors of these products have added features and modified their core products in order to better serve the needs of the DSS product user. However, as a database grows in depth and breadth, and the queries become more sophisticated, it has proven increasingly difficult to create high-performance database designs that properly balance performance, functionality and maintainability requirements. Designs can vary based upon the nature of the relational database management system platform, server hardware, network, client hardware, data set, user constituencies and query profile. The complexities of data warehouse design have created a critical, but largely unmet, need for Enterprise DSS services, including:

   . data warehouse design education;

   . DSS application design education;

   . end-user DSS usage education;

   . data warehouse consulting to assist with hardware selection, relational
      database management system selection, network and database tuning, database
      design and project management;

   . DSS consulting to assist with metric, filter and report definition and
      development; and

   . telephone, Web-based and on-site support from professionals that understand
      Enterprise DSS products.

   Successful Enterprise DSS developers must be able to quickly resolve problems that arise in a heterogeneous environment consisting of multiple hardware servers, database servers, application servers, networks, APIs and client hardware devices from multiple vendors.

THE MICROSTRATEGY SOLUTION

Through DSS Suite, we offer a comprehensive set of products and services that function as a platform for developing and deploying Enterprise DSS applications. Our software is designed to address the requirements of DSS application developers who are required to create scalable, portable and highly functional systems. DSS Suite frees application developers from the need to divert scarce resources to the technical and system integration challenges that are common across every industry. Instead, developers are able to focus on solving the business critical analytical problems unique to their particular industry. The advantages of DSS Suite include:

Extremely Powerful Analytics to Transaction-Levels of Detail. DSS Suite offers support beyond summary and detail queries to include queries at the most detailed level. This feature is critical to a wide range of applications, including call detail analysis, market basket analysis, fraud detection, credit analysis and campaign management. DSS Suite supports analysis ranging from ten attributes to 10,000 attributes, as well as support for sophisticated multi-dimensional qualities (for example, weather, loan status or promotional flags) and many-to-many relationships (such as colors and features). This sophistication allows the creation of granular, transaction-specific DSS applications that provide insight into customer behavior. Examples of the difference between "Summary" and "Detail" questions (which many DSS tools can offer) and "Transaction" level questions (where we believe we hold a distinct advantage over our competition) are illustrated below for a typical retailer:

    Summary: What were sales by department for the month of January?
    Detail: What were sportswear item sales and costs by store for Mondays
                 in January?
    Transaction: What were sales and costs for the top five selling items in
                 January? What were the five items most often purchased with each
                 of those items, and what is the typical customer profile of
                 individuals who buy these items by age, gender and income
                 bracket? What percentage of profits are derived from the five
                 items associated with our best sellers?

Applications built with DSS Suite can access volumes of data ranging from a few megabytes to terabytes. Using DSS Suite, our customers have successfully deployed DSS applications with terabytes of data, thousands of attributes, and billions of rows of detail. This scalability is accomplished with support for very large database schemes, a three-tier architecture with support for query governing and asynchronous execution and a relational query engine that intelligently leverages the relational database management system server, thereby avoiding any middle tier or client caching bottlenecks.

Optimized Support for All Major Relational Database Management System/Hardware Combinations. DSS Suite supports all major relational database management system platforms commonly used for Enterprise DSS applications with SQL-optimizing drivers that contain hundreds of optimization rules. DSS Suite has been designed to take into account the strengths, weaknesses and idiosyncrasies of each database's SQL interpreter so that queries are made as efficiently as possible. Databases supported by DSS Suite include Oracle, Informix, Sybase, Teradata, Tandem, SQL Server, DB2/390, DB2/400, DB2/UDB, MS Access, Adabas D and Dbase. The databases can be run on platforms that support Unix, MVS, OS400, Windows NT Windows, Tandem NonStop and OpenVMS and that include hardware from companies such as Compaq, NCR, IBM, Sun, Sequent, Hewlett-Packard, Pyramid, SNI, Data General and SGI. Although our DSS solutions allow the core database component to reside on nearly all enterprise server hardware and operating system combinations (Mainframe, AS/400, Unix, Windows NT, Windows), our application server component currently runs only on the Windows NT operating system. Therefore, our ability to increase sales of our products may depend on the continued acceptance of the Windows NT operating system.

Applications Deployable to Multiple Types of Users with Full Interface Flexibility. DSS Suite enables developers to create DSS applications in a modular fashion and to deploy common components across the enterprise in a variety of different forms without redundant coding. The same report logic can be tailored for different constituencies such as non-

computer users, company executives, spreadsheet analysts, operations personnel, novices, power users, suppliers, customers and consumers. Applications developed using DSS Suite will simultaneously run the following interfaces:

- Internet Explorer with HTML, optional Java and ActiveX modes;

- Netscape Navigator with HTML, optional Java and ActiveX modes;

- DSS Agent analytical interface on Windows 98, Windows 95, Windows NT, Windows 3.1, Win-OS/2;

- DSS Executive information systems on Windows 98, Windows 95, Windows NT, Windows 3.1, Win-OS/2;

- Microsoft Excel on Windows; and

- Custom applications developed using Visual Basic, Visual Basic for Applications, Visual C++, combined with DSS Objects on the Windows platform.

Support for Large Numbers of Users in Flexible Configurations. Our technology allows applications built with DSS Suite to be deployed to very large user populations--to tens of thousands for interactive analysis systems, and to millions with DSS Broadcaster. DSS Suite fully leverages the parallel processing and clustering features of the underlying relational database management system. Applications can be run in the following modes:

- stand-alone and untethered on a single laptop;

- local area network with direct connection to the database server;

- wide area network, or WAN, with a high-speed connection to the application server, which in turn connects to the data warehouse server via a slower speed WAN;

- Internet via DSS Web and a standard browser; and

- remote, using DSS Web combined with wireless modems or satellite link-ups.

DSS Suite offers a wide variety of features to support international deployment, including modular language support and support for many international character sets.

Full Range of Services Necessary for Enterprise DSS Success. We offer a full range of support services to ensure the success of our customers. During the "proof of concept phase," our consultants assist with application prototyping, infrastructure assessments, feasibility studies and provide overall Enterprise DSS architecture guidance. Our educational courses, such as "Introduction to DSS and Data Warehousing", provide the customer's information system professionals with a framework for planning and managing the process during this concept stage. During the data warehouse "construction phase," our consultants provide project oversight and data warehouse design services, while our educators teach courses such as "Data Warehousing--Data Modeling and Design" to the customer's information system professionals. In order to support the "full-scale development phase," our consultants assist with end-user requirements analysis, DSS application design, project management and quality assurance. Our educators offer courses in DSS design and development and certify DSS development professionals. During the "deployment phase," our consultants offer end-user support, system administration, performance tuning and troubleshooting assistance. Our educators teach courses in Enterprise DSS management and administration. Throughout all phases, our support staff provides online support for databases and system utilities over the Web, along with hotline telephone, fax and e-mail support. Our support engineers are fully certified DSS engineers, capable of debugging client/server networks, providing relational database management system configuration and tuning guidance, offering data warehouse design support, DSS application development support, and are fully certified in the installation, configuration and usage of our products. In the event that technical issues cannot be resolved remotely, our field engineers are dispatched on location to ensure the customer's success in implementing our product.

STRATEGY

Our objective is to become the world's leading provider of DSS products and related services implemented by Global 2000 enterprises. Our strategy for achieving this objective includes marketing, technology and sales dimensions.

Marketing Strategy. Create Widespread Demand for Decision Support Services. Our marketing strategy focuses on communicating the possibilities for value creation that new DSS technology offers to data content owners and other potential users. Organizations that have accumulated substantial data assets are frequently unaware of the "resonance" these data assets may have both within and outside their enterprise--i.e., the extent to which decision makers may benefit from the ability to query and analyze data assets in diverse, sophisticated and spontaneous ways. In other cases, there is a clear latent demand for information, but organizations are unaware that the tools now exist to facilitate the creation of "industrial strength" DSS applications that can satisfy this demand. Accordingly, our marketing strategy is primarily educational, seeking to create demand for DSS applications among the broadest possible set of decision makers, while at the same time providing a clear technology solution to the information technology professionals who are charged with building these applications. We believe that the future of decision support is "Query Tone," a cue signaling the availability of information on demand. We seek to position DSS application services as a utility, comparable to water, electricity, telecommunications and radio, to be relied upon daily by individuals in both their professional and personal lives.

A principal theme of the Query Tone concept involves appealing to the individual's "need to know." We believe that Query Tone will ultimately enable knowledge workers to pose questions against databases that they previously had thought were impossible to ask:

. How loyal are my customers?

. In which geographic areas are they concentrated?

. What are their demographic characteristics?

. How should marketing funds be allocated?

. To which customers should sales efforts be targeted?

Consumers may similarly benefit from Query Tone's interrogatory potential:

. How much money is in my bank account?

. What is my stock portfolio worth?

. Is someone using my credit card fraudulently?

. Which hospital has the best safety record for elective surgery?

. Which vacation resorts have the most loyal customer base?

We believe that Query Tone will become as commonplace as the dial tone, the universally recognized cue signaling the availability of telecommunications services on demand. We believe that Query Tone will provide data content owners with a business opportunity that allows them to differentiate their current offerings, capture new revenue streams, increase market share and ensure the continued loyalty of existing customers.

Technology Strategy. Provide a Scalable, Sophisticated and Maintainable DSS Platform. Our technology strategy is to provide scalable, sophisticated and maintainable solutions that support the relational database management system platforms maintained by the major vendors in the very large database segment of the data warehouse market, including IBM, Oracle, NCR, Compaq, Informix, Sybase and Microsoft. Through our commitment to cross-platform flexibility, we are improving our competitive position vis-a-vis larger data warehouse developers by exploiting the reluctance of the major vendors to provide optimal support for each other's platforms and protocols. We intend to further differentiate our product offerings by increasing functionality along the key dimensions of:

. capacity--the volume of information that can be efficiently analyzed;

. concurrency--the number of users which can be supported simultaneously;

. sophistication--the range of analytical methods available to the application designer;

. performance--the response time of the system to user queries;

. schema flexibility--the range of DSS and online transaction processing
  databases which the software is capable of efficiently querying without
  modification;

. maintain ability--the ease with which applications can be deployed,
  modified, upgraded and tuned;

. interface flexibility--the number of interface options and display features
  supported; and

. robustness--the reliability and availability of the software in mission
  critical environments.

   Sales Strategy. Acquire Market Share Among High-Volume Data Content Owners.
Our sales strategy focuses on building direct sales infrastructure and
relationships with indirect channel partners that are each targeted toward
acquiring market share among high-volume data content owners both domestically
and abroad. We believe that in many data-rich industries, including retail,
financial services and healthcare, a relative handful of large firms control a
disproportionate share of the data assets that have widespread business
applications both within those firms and throughout the larger economy. We also
believe that in light of the relatively long sales cycle associated with
acquiring DSS products and the recent emergence of the DSS industry, it is
critically important to gain market share with the firms that have "resonant"
data assets and that have the highest potential to attract large numbers of
decision makers. We are aggressively targeting key departments within these
firms that can be expected to help spread demand for our DSS solutions across
the enterprise as a whole. We are also expanding our active consulting practice
to enable ongoing customers to maximize the value of their investment, as well
as a support function to ensure that current customers have access to our field
engineering and tele-support. Finally, we are expanding our education program
to enhance our potential customers' and channel partners' understanding of the
power of DSS applications.

PRODUCTS

   As illustrated by the following diagram, DSS Suite enables the access to and
analysis of information stored in large relational databases through various
access devices. DSS Suite provides the decision support infrastructure and
products used to implement three categories of applications:

. internal corporate information solutions;
. business-to-business information solutions; and
. business-to-consumer information solutions.

          [GRAPHIC OF DSS SERVER APPEARS HERE]

Relational Online Analytical Processing Server

   DSS Server. High Performance Server for Analysis of Very Large Databases. DSS
Server provides multidimensional analysis against our broad array of supported
relational database management systems, including Oracle, Informix, DB2, Tandem,
Sybase, SQL Server and Teradata. In order to optimize DSS application
performance, DSS Server also contains our High Performance Drivers, a set of
optimization rules built into our relational OLAP Engine that tunes the SQL
generated by DSS Server for superior query performance against the target data
warehouse relational database. Specifically designed for enterprise and
commercial data warehouse applications, DSS Server scales to meet the decision
making requirements of thousands of users accessing terabytes of information.
DSS Server provides a sophisticated array of enterprise-critical management
tools such as caching of frequently accessed data sets and query

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governing to streamline performance and batch job scheduling. DSS Server also
has built-in multi-threaded user and queue management for load balancing. With
this broad set of management tools, organizations have the flexibility to tailor
their DSS architecture to work optimally within their business environment.

DSS Server also has the capability to create dynamic relational data marts to create summary tables within the data warehouse for improved performance and to pull subsets of the data warehouse into another relational data store for focused analysis.

Large-Scale Deployment Servers

DSS Web. Interactive Analysis Environment for the World Wide Web. DSS Web extends the information access and analysis capabilities of DSS Server to any Internet- or intranet-connected user with a Web browser. Using the DSS Web infrastructure, corporations can rapidly implement systems that allow local and remote users to develop and access business reports that contain information from a relational database.

DSS Web provides a broad array of options for viewing information sets, such as spreadsheet grids and a wide variety of graphs. Through DSS Web's exception reporting capabilities, users receive key elements of a report in easily interpretable, plain English messages. DSS Web also allows users to drill dynamically to a lower level of detail to view the underlying information or to create and save new analyses. For sensitive information, DSS Web's security plug-ins allow businesses to extend the standard security functionality with additional user authentication routines.

DSS Web includes an API that allows businesses to customize, integrate and embed DSS Web functionality into other applications. For example, a data syndicator for healthcare information could utilize DSS Web with a customized interface to sell access to this information to HMOs, hospitals, and pharmacies.

DSS Broadcaster. Personalized Information Broadcast Server. DSS Broadcaster is a powerful information broadcast server designed to be capable of delivering personalized messages to many thousands of recipients via e-mail, fax, pager and mobile phone. DSS Broadcaster sends personalized information to subscribers at pre-defined intervals when business metrics exceed pre-defined thresholds. Continually monitoring business conditions ensures that the appropriate information is delivered when it is required. DSS Broadcaster's support for consumer devices delivers information where it is most convenient, improving productivity by eliminating the need for users to actively log onto a dedicated information analysis application.

DSS Broadcaster provides both a platform for distributing information throughout the corporate enterprise and an infrastructure to implement information products and services over the Internet to target a broader community. For example, a retailer will be able to offer suppliers a subscription to a set of services that delivers product performance information to a supplier's fax machine or e-mail.

DSS Broadcaster reduces information overload and helps security requirements by automatically customizing the contents of broadcast messages for each individual subscriber. Microsoft Excel enclosures and embedded hyperlinks to DSS Web products provide access to the underlying details for further, interactive analysis.

Advanced Analysis And Applications Development Interfaces DSS Agent. Desktop Environment for Sophisticated Analysis and Development. DSS Agent is a desktop product that allows users to ask sophisticated business questions against relational databases. DSS Agent provides a broad range of business reporting views, including spreadsheet grids, a wide variety of graphs, mapping, and presentation-quality report writing. DSS Agent provides an advanced set of analytical capabilities such as rankings, deciles, time-based calculations and multi-dimensional calculations. The information filtering capabilities provided by DSS Agent enable users to specify in plain English precisely which constraints they wish to apply to the targeted information, allowing them to ask questions such as: "What are the sales in Boston on weekends in June for customers who are single, earn more than $30,000 per year and increased their purchases by 15% over last year?" Once users have run a business report, DSS Agent provides capabilities for analytical follow-up such as successively interjecting new information into the report, and drilling throughout the user's business information. DSS Agent's intelligent agents and alerts also allow users to take actions by automatically scanning the data warehouse and highlighting exception areas.

DSS Agent's filtering, reporting and analytical capabilities provide users with the ability to scan through transaction-level detail in their data warehouse and perform sophisticated market basket analyses. Through DSS Agent's ability to

build a sophisticated analytical report, users can understand what products sell
well together and whether or not that combination of product sales is more or
less profitable than the average market basket of products sold. All reports and
analyses developed with DSS Agent can be distributed via the Internet with DSS
Web and by e-mail, fax, pager, and mobile phone with DSS Broadcaster. The sample
retail report in the figure below illustrates DSS Agent's powerful reporting
capabilities.

[GRAPHIC OF DSS AGENT SCREEN APPEARS HERE]

   DSS Objects. API for Custom Application Development. DSS Objects is a
development tool for building customized applications on top of DSS Server.
Specialized applications (such as forecasting, category management, scenario
analysis, and budgeting) and applications that tightly integrate DSS with online
transaction processing are easily developed in Visual Basic, Visual Basic for
Applications, Delphi, and Visual C++. DSS Objects allows systems integrators,
value added resellers, in-house application developers and vertical solution
providers to develop customized relational OLAP applications.

   DSS Objects also is packaged with an Excel add-in that enables relational OLAP
analyses to be conducted directly within Microsoft Excel for those end-users who
wish to use Excel as their analytical front-end interface. The Excel add-in
allows users to run reports against the data warehouse and conduct follow-on
analyses on that data through the use of the drill everywhere capabilities
included in the Excel add-in.

Application Development and Management Tools

   DSS Architect. Tool for Rapid DSS Development. DSS Architect is a tool for
implementing information analysis applications on top of a relational database
management system. DSS Architect creates a set of business definitions and rules
based on the underlying structure of the relational database. Users of
applications such as DSS Agent, DSS Objects, DSS Web, and DSS Broadcaster can
use these business definitions to ask questions and conduct analysis of
information in the database. DSS Architect is highly automated and is based on
an open, flexible metadata architecture, which greatly reduces the cost and time
required to implement and maintain systems.

   DSS Executive. Object-Based Executive Information Systems Development Tool.
DSS Executive is a design tool for developing Executive Information Systems or
briefing books that provide high-level users with a series of views that
describe their business. Once briefing books are created, end users can access
them by running DSS Agent in Executive Information Systems mode. These systems
are easily implemented on top of any DSS Agent application by simply compiling
sets of analyses into dynamic pages that immediately focus users on their key
business drivers.

   DSS Administrator. Management and Monitoring Tools for Enterprise
Deployments. DSS Administrator provides a complete set of tools for managing and
monitoring large-scale decision support applications. System monitoring
capabilities provide the information needed to tune systems for high performance
and availability. The user and object management functionality provided by DSS
Administrator enables organizations to maintain enterprise systems supporting
thousands of users.

   DSS Administrator's Billing module provides the infrastructure needed to
implement billing systems for Internet-based information services. The Billing
module can be used to track system usage and generate the reports needed to
charge users of an Internet-based information service.

Professional Services and Customer Support

   DSS Consulting. Data Warehouse And DSS Implementation Service. DSS
Consulting is dedicated to providing clients with the DSS industry's most
focused data warehouse and DSS implementation expertise. Our QuickStrike
program, a consulting program for organizations who have already committed to a
DSS development effort, includes ten working days of consulting provided by an
experienced MicroStrategy data warehouse DSS expert at a client's facilities.
Our consultants contribute to the success of Enterprise DSS projects by

providing services such as:

.   DSS application design, development, test and deployment;

.   data warehouse design, population, development, tuning, and maintenance;

.   system integration project planning, methodology and audit oversight; and

.   custom application design, development and implementation methodology for
    those who wish to develop applications with proprietary interfaces using
    DSS Objects.

  DSS Education. Data Warehouse and DSS Implementation Methodology. We offer
training courses to provide current and potential customers with an effective
way to learn about decision support systems and data warehousing. These courses
have been developed and are taught by senior MicroStrategy consultants with
years of experience designing and implementing data warehouses and DSS
solutions. Our training curriculum includes:

.   Introduction to DSS and Data Warehousing;

.   Data Warehousing, Decision Support and the Web;

.   Advanced DSS Functionality and Architecture; and

.   Data Warehousing--DSS Modeling and Design.

  DSS Support. Hotline, Knowledge Base and Field Engineering Services. We
provide full product implementation cycle support for Enterprise DSS development
and deployment through a variety of channels, including a Web-accessible
knowledge base, a telephone hotline, e-mail and fax. Our support engineers are
capable of providing client/server configuration assistance, data warehouse
design support, DSS application development assistance, relational database
management system tuning and configuration assistance and installation,
configuration, tuning, and usage support for all of our products. Our support
engineers maintain close relationships with the development centers of the major
relational database management system providers in order to quickly resolve very
large database performance issues that arise from the interaction between DSS
and relational database management system software. In the event that it is not
possible to troubleshoot an issue remotely, our field engineers are available to
be dispatched directly to a client site to isolate and solve problems locally.
Our support personnel are capable of providing mission critical support and will
interface on behalf of the customer with the relevant very large database and
relational database management system providers to address incompatibilities,
particular to a given configuration, that are impairing the successful
deployment of our DSS applications.

  The diagram set forth below illustrates the complete range of our consulting,
education and support services.

CUSTOMERS

  We provide DSS products and related services that can support thousands of
users in multiple countries, speaking different languages and working with
different currencies. We have in excess of 650 customers, spread across a
variety of major industries. A representative list of the firms that during and
after the year ended December 31, 1996 have purchased over $250,000 of our
products and services is as follows:

BANKING & FINANCE	TELECOMMUNICATIONS	CONSUMER PACKAGED GOODS
Bank of America*	Ameritech	Beverage Data Network
Banco Santander	AT&T Wireless Services	Brown & Williamson
CIBC	Bell Atlantic*	Estee Lauder
Fannie Mae*	Bell South*	Hallmark*
First Data Corporation*	Concert Management Services	Heublein
First Union Corporation*	MCI Worldcom	Ralston Purina*
First USA Bank	Pacific Bell*	S.C. Johnson Wax*
Freddie Mac*	Sprint*	U.S. Borax, Inc.
GE Capital*		
The Provident Bank	PHARMACEUTICAL & HEALTHCARE	TECHNOLOGY
Royal Bank of Canada*	Cardinal Health	EDS Electronic Data Systems*

Societe Generale	Glaxo Wellcome*	IBM Corporation*
Visa International*	MedPartners	Nielsen Media Research
	Merck/Medco*	NCR
RETAIL	Premier, Inc.*	Oculus
Asda Stores*	Smithkline Beecham	Perot Systems*
B & Q*	Warner-Lambert*	Tandem Computers*
Bear Creak*		Western Digital*
Best Buy*	GROCERY & PHARMACY	
Comet	American Stores*	MANUFACTURING & INDUSTRIAL
Dayton Hudson	Associated Food Stores	Allied Signal
Elder Beerman	CVS Pharmacy*	DuPont*
Federated Systems Group*	Eckerd Corporation*	Exxon Chemical
Kmart*	Food Lion	General Motors
Kohl's Department Stores	Hannaford Brothers	Koch Industries
LCBO	Harris Teeter	Lexmark
The Limited, Inc.*	Marsh Supermarkets	Monsanto*
Littlewoods*		Nissan
Liz Claiborne*	INSURANCE	Samsung*
Marks & Spencer PLC*	Commercial Union Insurance	Shaw Industries
Payless Cashways	National Heritage Insurance*	
Payless Shoesource*	Nationwide Insurance*	OTHER
ShopKo*	USAA*	London Electric
The Burton Group*		National Association of Securities
Victoria's Secret		Dealers, Inc.
Woolworth's*		Penn Traffic
		The Sabre Group*
		Universal Studios, Inc.*
		US Airforce

* Indicates that customer has purchased in excess of $500,000 in products and
  services during and after the year ended December 31, 1996.

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SALES AND MARKETING

   Direct Sales Organization.   We market our software and services primarily
through our direct sales organization. As of December 31, 1998, we had domestic
sales offices in Atlanta, Bedminster, Boston, Charlotte, Chicago, Cincinnati,
Columbus, Dallas, Detroit, Houston, Kansas City, Los Angeles, Minneapolis, Mount
Laurel, New York City, Newport Beach, Phoenix, Pittsburgh, San Francisco,
Seattle, St. Louis and Washington, D.C., and international sales offices located
in Canada (Toronto and Vancouver), The Netherlands (Amsterdam), Spain (Barcelona
and Madrid), Germany (Cologne), the United Kingdom (London), France (Paris),
Austria (Vienna), and Italy (Milan). We are represented by distributors in
countries in which it does not have sales offices, including Australia, Brazil,
Chile, Columbia, Czech Republic, Finland, Greece, Ireland, New Zealand,
Singapore, South Africa, South Korea and Sweden.

   Indirect Sales Channels. We have entered into relationships with over 150
system integration, application development and platform partners whose products
and services are used in conjunction with ours. Agreements with these partners
generally provide them with non-exclusive rights to market our products and
services and allow access to our marketing materials, product training and
direct sales force for field level assistance. In addition, we offer our
partners product discounts. By using indirect sales channels, we obtain
favorable product recommendations from the leading system integration,
application developers and platform partners, thereby increasing our market
coverage. We also believe that such indirect sales channels allow us to leverage
sales and service resources, marketing and industry specific expertise to expand
our user base. We are not dependent upon any single third party partner or small
group of partners, the loss of which would have a material adverse effect on us.

   Value-Added Resellers.   VARs who resell DSS Suite bundled with their own
Enterprise DSS application and/or syndicated data products include:

RETAIL	PHARMACEUTICAL	FINANCE
AC Nielsen	Concepts Dynamics	American Management
Consist International	IMS America	Systems
FourGen Software	IMS Canada	Databasics
ICL Retail Systems	Source Informatics	PaySys
Intrepid Systems	TELECOM	CROSS INDUSTRY
Radiant Systems	CableData	Acxiom
Radius Retail	Cincinnati Bell	Chilton Research Services
Retek Systems	Information Systems	CIC/MetroMail
Technology Investments	UTILITY	Naviant
	james + martin	RDI - DW Specialists

System Integrators.   We have also entered into agreements to provide
training, support, marketing and sales assistance to a number of system
integrators, including:

AMS	EMS	PRAGMATEK Consulting Group
Andersen Consulting	Ernst & Young	Professional Software Consulting
Archer Decision Sciences	H.I.T.	ProLink
Anubis Solutions	james + martin	EIS Pulse
Beggsheidt Enterprise Consulting	John Galt	Retail Dynamics (RDI)
CBSI	Knightsbridge Solutions	RIS Information Services
Clarity Consulting	Lancet Software Development	Revere Group
CMS	Manifest Solutions	Shamrock Computer Resources
Computer Sciences Corporation	Marketing Info Systems	Software AG
Cornerstone Concepts	Naviant Technology Solutions	Stonebridge Technologies
Database Technologies	NCR	Syndicated Technologies
Decision Support Associates	NexGen SI	Virtual Solutions
Deloitte & Touche	Nichols Research	Zyga
DMR/Trecom	Noblestar Systems	
Emergent Corporation	Olympus Group	
	Perspective Data Architecture	

   Platform Partners. Our platform partners consist of firms which co-sell and
co-market complementary technology to the same target customer base. These
platform partners include IBM, Tandem/Compaq, NCR, Sequent, ICL, Data General,
Informatica, Oracle, Informix and Red Brick.

RESEARCH AND PRODUCT DEVELOPMENT

   We have made substantial investments in research and product development. We
believe that our future performance will depend in large part on our ability to
maintain and enhance our current product line, develop new products that achieve
market acceptance, maintain technological competitiveness and meet an expanding
range of customer requirements. As of December 31, 1998, our research and
product development staff consisted of 171 employees. Our total expenses for
research and development for the years 1998, 1997, and 1996 were $12.1 million,
$5.0 million (excluding $1.9 million of capitalized software costs) and $2.8
million, respectively.

COMPETITION

   The markets for decision support and Internet-based information services are
intensely competitive and subject to rapidly changing technology. Our most
direct competitors in these markets are providers of decision support software,
push products, browsers with webcasting functionality, electronic and Internet
commerce systems, vertical Internet information systems, wireless communications
products, OSPs and event-driven technology. Many of these competitors are
offering (or may soon offer) products and services that may compete with our
information analysis and soon-to-be-released information broadcasting products.
The bases of competition in these markets include volume and type of information
accessed, timeliness of information delivery, degree of personalization, range
of information delivery media, quality of presentation, price/performance,
sophistication of notification events and ease of implementation.

   Our competitors in the decision support market fall generally into the
following categories: (i) vendors of ROLAP software such as Information
Advantage, Inc. and Platinum Technologies Corporation; (ii) vendors of desktop
OLAP software such as Business Objects S.A. and Cognos Incorporated; and (iii)
vendors of multidimensional OLAP software such as Oracle Corporation, Arbor
Software Corporation (which has entered into a strategic relationship with IBM),
Seagate and SAS. We anticipate continued growth and competition in the decision
support software market and the entrance of new competitors into this market in
the future. Such new competitors may include Microsoft, which has indicated
that it may introduce certain products in 1998 that may overlap to some extent
with the functionality of our products.

   Push product vendors such as PointCast, Marimba and BackWeb offer technologies

that deliver information over the Internet to recipients via Web-browsers and proprietary interfaces. Vendors of push products are focused generally on the delivery of text-based information, such as news and sports, but often include some level of numeric information such as stock price updates. Moreover, Marimba has entered into technology partnerships that will extend the scope of its offering to include the delivery of information and analysis from relational data sources, which could provide us with increased competition.

Web-browsers with channels or webcasting functionality, such as Microsoft Internet Explorer and Netscape Navigator, provide an infrastructure for automatically updating a set of information on a recipient's computer. Although this infrastructure is used by us to enhance the functionality of our DSS Web product line, webcasting and desktop channels offer an alternative information delivery infrastructure to our DSS Broadcaster product line.

Products and turn-key solutions for electronic commerce, Internet commerce and electronic business, such as those provided by IBM, Open Market, U.S. Web, SVIP and Sun, provide a set of functionality that could be used to implement Internet-based information services. To the extent that these information products sell information and analysis from relational databases they will compete with our products.

Vertical Internet information systems, including Microsoft Expedia, Microsoft Investor, StockBoss, Microsoft CarPoint, Mercury Mail, TechWeb, ESavers (US Airways, Inc.), C.O.O.L. (Continental Airlines, Inc.), and Internet Travel Network, have developed custom applications and products for the commercialization, analysis and delivery of specific information via the Internet. These systems are generally tailored to a particular application and built in a

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fashion that is difficult to leverage into other applications. These systems represent competition, in that they provide similar functionality to applications developed using our products.

Wireless communications and messaging providers, such as AT&T, Nextel, Sprint, MCI, WorldCom, Tridium, PageNet and SkyTel, offer a variety of alpha enabled mobile phones and pagers. It is possible that these companies will implement custom-developed information services for consumers of their mobile phones and pagers that will compete with applications using our products and services.

OSPs include companies such as America Online, MSN, Prodigy, @Home and WebTV (acquired by Microsoft) that provide text-based content, such as news and sports, over the Internet and on proprietary online services. The potential exists for these companies to implement applications that overlap with the functionality provided by us.

Providers of event notification systems include companies such as TIBCO, which markets a product that monitors stock tickers and notifies subscribers when preset thresholds are crossed; Clarify, which handles loan applications with a financial system developed by SAP AG; BEA Systems, which provides middleware; and Vitria Technology, which provides event-based workflow software. The systems for event-driven notification provided by these companies at present and in the future may result in technology that overlaps with that provided by us.

We believe that we differentiate ourselves from other industry participants by offering comprehensive support for all significant relational database platforms. If a single vendor wins a substantial share of the relational database market, we may find it more difficult to differentiate our offerings from our competitors, which may materially adversely affect our business, operating results and financial condition.

Many of our competitors have longer operating histories, significantly greater financial, technical, marketing or other resources, or greater name recognition than us. In addition, many of our competitors have well established relationships with current and potential customers and extensive knowledge of the data warehouse industry. As a result, these competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products, than we can. Increased competition may result in price reductions, reduced gross margins and loss of market share. There can be no assurance that we will be able to compete successfully against current and future competitors or that competitive pressures faced by us will not materially

adversely affect our business, operating results and financial condition. See
"Business--Competition."

Current and potential competitors may make strategic acquisitions or establish
cooperative relationships among themselves or with third parties, thereby
increasing their ability to address the needs of our prospective customers. Our
current or future indirect channel partners may establish cooperative
relationships with our current or potential competitors, thereby limiting our
ability to sell our products through particular distribution channels.
Accordingly, it is possible that new competitors or alliances among current and
new competitors may emerge and rapidly gain significant market share. Such
competition could have a material adverse effect on our margins and our ability
to obtain maintenance revenues for new and existing product licenses on
favorable terms.

INTELLECTUAL PROPERTY AND LICENSES

We rely primarily on a combination of copyright and trademark laws, trade
secrets, confidentiality procedures and contractual provisions to protect our
proprietary technology. For example, we license rather than sell our software
and require licensees to enter into license agreements that impose certain
restrictions on licensees' use of the software. In addition, we have made
efforts to avoid disclosure of our trade secrets, including but not limited to
requiring those persons with access to our proprietary technology and
information to enter into confidentiality agreements with us and restricting
access to our source code. We seek to protect our software, documentation and
other written materials under trade secret and copyright laws, which afford only
limited protection. We presently have no patents or patent applications
pending. Despite our efforts to protect our proprietary rights, unauthorized
parties may attempt to copy aspects of our products or to obtain and use
information that we regard as proprietary. Policing unauthorized use of our
products is difficult, and while we are unable to determine the extent to which
piracy of our software products exists, software piracy can be expected to be a
persistent problem. In addition, the laws of some foreign countries do not
protect our proprietary rights to as great an extent as do the laws of the
United States. There can be no assurance that

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our means of protecting our proprietary rights will be adequate or that our
competitors will not independently develop similar technology.

Generally, our products are licensed through "named-user licenses," under
which only one identified user may access the product for each "named-user"
license fee paid. A user is an individual to whom a licensee has assigned an
identification number for purposes of tracking use of a product and who is under
an obligation to the licensee to protect any of our confidential information.
Under our standard software license agreement, we have the ability to request
certified statements of records regarding identification numbers in particular,
and use of the products in general, once per year, and has the right to audit
use of the products at least once per year. Copying of products and
documentation is limited to the number of users for whom license fees have been
paid.

There can be no assurance that third parties will not claim infringement by us
with respect to current or future products. We expect that software product
developers will increasingly be subject to infringement claims as the number of
products and competitors in our industry segment grows and the functionality of
products in different industry segments overlaps. Any such claims, with or
without merit, could be time-consuming, result in costly litigation, cause
product shipment delays or require us to enter into royalty or licensing
agreements. Such royalty or licensing agreements, if required, may not be
available on terms acceptable to us or at all, which could have a material
adverse effect upon our business, operating results and financial condition.

EMPLOYEES

As of December 31, 1998, we had a total of 907 employees, of whom 748 were
based in the United States and 159 based internationally. Of the total, 264
were engaged in sales and marketing, 171 in product development, 330 in
professional services and 142 in finance, administration and corporate
operations. Our future performance depends in significant part upon the

continued service of our key management personnel, none of whom is bound by an employment agreement. The loss of the services of one or more of our key employees could have a material adverse effect on our business, operating results and financial condition. Our future success also depends on our continuing ability to attract, train and retain highly qualified technical, sales, service, marketing and managerial personnel. Competition for such personnel is intense, and there can be no assurance that we can retain our key personnel in the future. None of our employees is represented by a labor union. We have not experienced any work stoppages and consider our relations with our employees to be good.

   We believe that effective recruiting, education, and nurturing of human resources is critical to our success and have traditionally made substantial investments in these areas in order to differentiate ourselves from our competition, increase employee loyalty and create a culture conducive to creativity, cooperation and continuous improvement. These measures include:

   Professional Education.   All newly hired professionals complete a professional orientation course that ranges from 4-8 weeks long presented by "MicroStrategy University," our in-house education function. The curriculum consists of lectures, problem sets and independent and group projects, covering data warehousing, Enterprise DSS, our products, our competitors and customers. Certain lectures also deal with general business practices, ethics and teamwork. At the end of this training, students must pass a number of oral and written examinations in order to begin their assignments. Following this introductory course, veteran employees normally complete at least two weeks of continuing professional development each year. Course content for MicroStrategy University is created by the most experienced members of the professional staff, who generally have an annual obligation to create "expert content" based upon the best practices they have most recently observed in the field. This expert content is then used to upgrade and revitalize our education, consulting, support, technology and marketing operations.

   Company Days.   Each quarter, we invite the entire employee base together for knowledge transfer within functions, across functions and across geographic boundaries. These events are generally built around a set of company-wide meetings and breakout sessions, but they also have particular cultural themes. These events include: the "Company Retreat," which allows employees to network with colleagues in an informal setting and which traditionally has consisted of a Company-sponsored cruise; "University Week," which focuses on continuing professional development along with the creation and codification of industry-best practices; "Friends and Family Weekend," during which we sponsor a weekend-long open house and plays host to immediate and extended family, as well as significant others of employees; and "Customer and Partner Festival," where our business partners and customers are encouraged to mix with the

employee base in order to exchange information and strengthen the firm's ties to the marketplace. We believe that our "Company Day" events are long-term investments which will, over time, result in superior productivity, morale, and loyalty among the employee base, and we expect to continue to engage in these activities in the future.

DIRECTORS AND EXECUTIVE OFFICERS

   The following information concerns members of our Board of Directors and our executive officers:

Name	Age	Position
Michael J. Saylor....................	34	President, Chief Executive Officer and Chairman of the Board of Directors
Sanju K. Bansal.....................	33	Executive Vice President, Chief Operating Officer and Director
Siddartha Banerjee..................	33	Vice President, Consulting Services
Jonathan F. Klein...................	32	Vice President, Law and General Counsel
Mark S. Lynch......................	35	Vice President, Finance and Chief Financial Officer
Eduardo S. Sanchez..................	42	Vice President, International Operations
David B. Sherwood, Jr...............	30	Vice President, Marketing
Ray B. Tacoma......................	49	Vice President, Sales
Stephen S. Trundle..................	30	Vice President, Technology
Charles A. Veley...................	33	Vice President, Strategic Planning
Mark W. Walztoni...................	44	Vice President, Corporate Development

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John L. Wyatt.......................  47 Vice President, Corporate and President, Commercial Intelligence
Edward S. Yurcisin..................  31 Vice President, Customer Management
Frank A. Ingari.....................  49 Director
Jonathan J. Ledecky.................  41 Director
Ralph S. Terkowitz..................  48 Director
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Michael J. Saylor has served as President, Chief Executive Officer and Chairman of the Board of Directors since founding MicroStrategy in November 1989. Prior to that, Mr. Saylor was employed by E.I. du Pont de Nemours & Company as a Venture Manager from 1988 to 1989 and by Federal Group, Inc. as a Consultant from 1987 to 1988. Mr. Saylor received an S.B. in Aeronautics and Astronautics and an S.B. in Science, Technology and Society from the Massachusetts Institute of Technology.

Sanju K. Bansal has served as Executive Vice President and Chief Operating Officer since 1993 and was previously Vice President, Consulting since joining MicroStrategy in 1990. He has been a member of the Board of Directors of MicroStrategy since September 1997. Prior to joining MicroStrategy, Mr. Bansal was a consultant at Booz Allen & Hamilton, a worldwide technical and management consulting firm, from 1987 to 1990. Mr. Bansal received an S.B. in Electrical Engineering from the Massachusetts Institute of Technology and an M.S. in Computer Science from The Johns Hopkins University.

Siddhartha Banerjee has served as Vice President, Consulting Services since November 1998. From 1996 to 1998, Mr. Banerjee served as Director of North America Consulting Services. From 1993 to 1996, Mr. Banerjee served as a Consulting Senior Manager and as Director of Western Operations. Prior to that, Mr. Banerjee worked at Ernst & Young as a consulting manager from 1989 to 1991 and at Sprint International as a Product Manager from 1991 to 1993. Mr. Banerjee received an S.B. and an M.S. in Electrical Engineering from the Massachusetts Institute of Technology.

Jonathan F. Klein has served as Vice President, Law and General Counsel since November 1998 and as Corporate Counsel from June 1997 to November 1998. Prior to that, Mr. Klein was an appellate litigator with the United States Department of Justice. Mr. Klein received a B.A. in Economics from Amherst College and a J.D. from Harvard Law School.

Mark S. Lynch has served as Vice President, Finance and Chief Financial Officer since September 1997. Prior to that, Mr. Lynch was Chief Financial Officer for WorldCorp and World Airways from 1996 to 1997, and before that was Vice President, Finance for Intelidata, an electronic commerce firm, from 1991 to 1996. Mr. Lynch has also held several senior accounting positions with KPMG Peat Marwick and Clark Construction Group. Mr. Lynch is a certified public accountant and received a B.S. in Accounting from Penn State and an M.B.A. from George Washington University.

Eduardo S. Sanchez has served as Vice President, International Operations since July 1997. From 1994 to 1997, he served as Managing Director, European Operations and prior to that as Senior Manager, U.S. Consulting since joining MicroStrategy in 1992. Prior to that, Mr. Sanchez was a manufacturing consultant in Europe, the United States, South

America and Japan. Mr. Sanchez received an M.S. in Systems Engineering from George Mason University and a B.S. in Electrical Engineering from the University of La Plata in Argentina.

David B. Sherwood, Jr. has served as Vice President, Marketing since February 1998 and as Director, Sales Programs from 1997 to 1998. From 1992 to 1996, Mr. Sherwood served as consultant and then Director of Field Sales. Prior to that, Mr. Sherwood worked at Merrill Lynch as a financial analyst. Mr. Sherwood received an A.B. in English from Dartmouth College.

Ray B. Tacoma has served as Vice President, Sales since January 1999, and Northeast Regional Vice President from 1997 to 1998. From 1993 to 1996, Mr. Tacoma served as Vice President, Sales and held various other management positions at nCUBE Corporation. From 1973 to 1992, Mr. Tacoma served in a variety of management and sales positions at Sequent Computer Systems, Tandem Computers, Inc., and Digital Equipment Corporation. Mr. Tacoma received a B.S.M.E. from the University of Evansville.

Stephen S. Trundle has served as Vice President, Technology since July 1997

and as Director, Technology from 1994 to 1997. From 1992 to 1994, Mr. Trundle served as a Consultant and then a Senior Consultant with MicroStrategy. Prior to that, Mr. Trundle worked for Bath Iron Works on the Aegis Destroyer program from 1991 to 1992. Mr. Trundle received an A.B. in Engineering and an A.B. in Government from Dartmouth College.

Charles A. Veley has served as Vice President, Strategic Planning since March 1999 and as Vice President, Corporate Development since October 1997 and as Director, Corporate Development from 1996 to October 1997. From 1994 to 1996, Mr. Veley was an Account Executive for Cambridge Technology Partners, a client/server system integrator. From 1991 to 1994, Mr. Veley was employed by MicroStrategy as Vice President, Sales and Marketing. Prior to that, Mr. Veley was an Associate Consultant with the Boston Consulting Group. Mr. Veley received an A.B. in Computer Science from Harvard College.

Mark W. Walztoni has served as Vice President, Corporate Development since March 1999. Prior to that, Mr. Walztoni was employed by Computer Horizons Corp. as Vice President, Human Resources from July 1996 to March 1999. Mr. Walztoni has also held several senior human resources positions with Ernst & Young LLP and American Express Company. Mr. Walztoni received a B.S. in Business from Northeastern Illinois University and an M.A. in Organizational Psychology from Columbia University.

John L. Wyatt has served as Vice President, Corporate and President of MicroStrategy's Commercial Intelligence business unit since February 1999. From 1991 until 1998, Mr. Wyatt was the Chief Executive Officer of James Martin & Co. In 1997, he became a member of that company's board of directors, on which he continues to serve. Mr. Wyatt served as the President of a North American start-up subsidiary of an international consulting firm from 1987 to 1990 and as the President of Cohen & Wyatt, Inc., a systems integration solutions company, from 1983 to 1986. Mr. Wyatt received a BEC in 1975 from the University of New England in New South Wales, Australia.

Edward S. Yurcisin has served as Vice President, Customer Management since November 1998. Since joining MicroStrategy in 1990, Mr. Yurcisin has also served as a Consultant, a Consulting Manager, a Product Manager, an Account Manager, and as Director of Technology Services. Mr. Yurcisin received a B.A. in Economics and Political Science from Duke University.

ITEM 2. PROPERTIES

FACILITIES

Our principal offices currently occupy over 284,000 square feet in Vienna, Virginia pursuant to multiple leases which expire between January 1999 and September 2006. In addition, we also lease sales offices domestically and internationally in a variety of locations, including Atlanta, Bedminster, Boston, Chicago, Cincinnati, Dallas, Detroit, Los Angeles, Minneapolis, New York City, San Francisco, Seattle, Washington, D.C., Amsterdam, Barcelona, Cologne, London, Madrid, Milan, Paris and Vienna. We believe that suitable additional or alternative space will be available in the future on commercially reasonable terms as needed.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may be involved in litigation that arises in the normal course of our business operations. Currently, we are not a party to any litigation that we believe could reasonably be expected to have a material adverse effect on our business or results of operation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our Class A Common Stock, $.001 par value (the "Class A Common Stock"), is traded on the Nasdaq National Market ("Nasdaq") under the symbol "MSTR". Following our initial public offering on June 12, 1998, the following high and low sales prices were reported by Nasdaq in each quarter:

1998	High	Low
Fourth Quarter	33.88	20.75
Third Quarter	46.00	23.75
Second Quarter	29.75	15.88

   As of March 1, 1999, there were approximately 216 shareholders of record of our Class A Common Stock and 16 shareholders of record of our Class B Common Stock, $.001 par value (the "Class B Common Stock").

   We have never paid any cash dividends on our Class A Common Stock and do not expect to pay any such dividends in the foreseeable future. Our stock price has fluctuated substantially since our initial public offering in June 1998. The trading price of our Class A Common Stock is subject to significant fluctuations in response to variations in quarterly operating results, the gain or loss of significant orders, changes in earnings estimates by analysts, announcements of technological innovations or new products by us or our competitors, general conditions in the software and computer industries and other events or factors. In addition, the equity markets in general have experienced extreme price and volume fluctuations which have affected the market price for many companies in industries similar or related to that of ours and which have been unrelated to the operating performance of these companies. These market fluctuations have affected and may continue to affect the market price of our Class A Common Stock.

   We sold 4,440,000 shares of our Class A Common Stock on June 12, 1998 (the "Initial Public Offering") pursuant to a Registration Statement on Form S-1 (Registration No. 333-49899), which was declared effective by the Securities and Exchange Commission (the "Commission") on June 10, 1998 (the "Effective Date"). Certain stockholders of ours sold an aggregate of 160,000 shares of Class A Common Stock pursuant to such registration statement. The managing underwriters of this offering were Merrill Lynch & Co., Hambrecht & Quist, and Friedman, Billings, Ramsey & Co., Inc. The aggregate gross proceeds raised in the Initial Public Offering by us and the selling stockholders were $53.3 million and $1.9 million, respectively. Our total expenses in connection with the Initial Public Offering were approximately $4.6 million, of which $3.7 million was for underwriting discounts and commissions. Our net proceeds from this offering were approximately $48.1 million. From the Effective Date through December 31, 1998, we used $8.9 million of the net proceeds of the Initial Public Offering to repay net borrowings under our business loan facility (the "Business Loan"). As of March 31, 1999, we had approximately $27.5 million of proceeds remaining from the Offering, and pending use of the proceeds, we intend to invest such proceeds primarily in investment-grade, interest-bearing instruments.

   We sold 1,585,000 shares of our Class A Common Stock, on February 10, 1999 (the "Secondary Offering") pursuant to a Registration Statement on Form S-1 (Registration No. 333-70919), which was declared effective by the Commission on February 10, 1999. Certain stockholders of ours sold an aggregate of 415,000 shares of Class A Common Stock pursuant to such registration statement.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

	Years ended December 31,				
	1998(1)/	1997(1)/	1996	1995	1994
	(in thousands, except share and per share data)				
STATEMENT OF OPERATIONS DATA:					
Revenues:					
Product licenses	$ 72,721	$ 36,601	$ 15,873	$ 4,077	$ 622
Product support	33,709	16,956	6,730	5,700	4,358
Total revenues	106,430	53,557	22,603	9,777	4,980
Cost and expenses:					
Cost of revenues	19,781	11,116	5,257	2,458	2,057
Sales and marketing	53,408	30,468	13,054	2,992	771
Research and development	12,106	5,049	2,840	1,855	200
General and administrative	11,809	6,552	3,742	2,395	1,955
Total costs and expenses	97,104	53,185	24,893	9,700	4,983

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                                              ----------    ----------     ----------     ----------     ----------
Income (loss) from operations....................    9,326          372        (2,290)            77            (3)
Interest income (expense), net...................      308         (239)         (105)           (40)          (34)
Other income (expense), net......................      (14)         (12)           20             11           (24)
                                              ----------    ----------     ----------     ----------     ----------
Income (loss) before taxes.......................  $ 9,620    $     121     $  (2,375)    $       48     $      (61)
Provision for income taxes.......................    3,442          --            --             --             --
                                              ----------    ----------     ----------     ----------     ----------
Net income (loss)................................  $ 6,178    $     121     $  (2,375)    $       48     $      (61)
                                              ==========    ==========     ==========     ==========     ==========
Basic net income (loss) per share................  $  0.18    $    0.00     $   (0.08)    $     0.00     $     0.00
Shares used in computing basic net income (loss)
 per share....................................... 33,492,869   29,493,873    29,493,873    28,896,622    27,988,000

Diluted net income (loss) per share..............  $  0.16    $    0.00     $   (0.08)    $     0.00     $     0.00
Shares used in computing diluted net income
 (loss) per share................................ 38,601,389   32,362,277    29,493,873    28,896,622    27,988,000

BALANCE SHEET DATA:
Cash and cash equivalents........................  $ 27,491   $    3,506    $    1,686    $      643    $      249
Working capital (deficit)........................   28,467       (5,991)       (2,237)        1,343          848
Total assets.....................................   82,689       30,065        13,004         5,838        3,209
Notes payable, long-term portion.................     ---         2,428           460           600          193
Total stockholders' equity (deficit).............   46,280         (427)         (793)        1,546        1,446
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(1) On June 11, 1998, we elected to terminate our treatment as a Subchapter S corporation for federal and state income tax
    purposes. Under Subchapter S, our income was allocated and taxable to our individual stockholders rather than to us.
    Accordingly, no federal or state income taxes have been provided for in the financial statements, prior to consummation of the
    Initial Public Offering. Our S corporation status terminated shortly prior to consummation of the Initial Public Offering at
    which time we became subject to federal and state corporate income taxation as a Subchapter C corporation. As a result, we will
    now account for income taxes as a Subchapter C corporation and have adopted SFAS No. 109, "Accounting for Income Taxes." Our
    recorded income tax expense was $3,442 for the twelve months ended December 31, 1998. On a pro forma basis, had we been a tax-
    paying entity, we would have recorded an income tax provision of approximately $3,649 and $489 and net income (loss) of
    approximately $5,971 and $(368) for the years ended December 31, 1998 and 1997, respectively. Pro forma basic and diluted
    income per share would have been $0.18 and $0.15, respectively, for the year ended December 31, 1998 and pro forma basic and
    diluted loss per share would have been $0.01 for the year ended December 31, 1997.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS

OVERVIEW

   Our primary business following our incorporation in 1989 was to provide
software consulting services for customers to help them build custom decision
support systems. Our activities during 1994 and 1995 increasingly focused on
the development and sale of software products, culminating in the release of a
full complement of DSS products in 1995. Since this time, we have continued to
focus significant resources on the development of additional functionality and
features to our DSS software products. As a result, we have transitioned our
primary business from that of a provider of services to a provider of software
products.

   Since 1995, we have significantly increased our sales and marketing, service
and support, research and development and general and administrative staff. We
have more than doubled our headcount each year since 1995. At January 1, 1995,
we had 59 employees, and at December 31, 1998, we had 907 employees. Although
our revenues have significantly increased in each of the last nine quarters, we
experienced fluctuating operating margins during 1996, 1997

and 1998 primarily as a result of increases in staff levels. We expect to
continue to increase staffing levels and incur additional associated costs in
future periods. If we are unable to achieve corresponding substantial revenue
growth, we could suffer operating losses in one or more fiscal quarters and may
be unable to forecast such losses prior to the end of any given fiscal quarter.
In addition, we have experienced net losses and losses from operations for the
fiscal years ended December 31, 1996 and December 31, 1994, and were only
marginally profitable for the fiscal years ended December 31, 1997 and December
31, 1995. While we have experienced significant percentage growth in revenues in
recent periods and currently expect continued, although potentially lower,
percentage growth in revenues throughout 1999, prior percentage revenue growth
rates should not be considered as necessarily indicative of future growth rates
or operating results, and there are a number of factors that could materially
affect expected revenue and operating results for fiscal 1999 and subsequent
periods. See "Risk Factors."

   Our revenues are derived from two principal sources (i) product licenses and
(ii) fees for maintenance, technical support, education and consulting services
(collectively, "product support"). Prior to January 1, 1998, we recognized
revenue in accordance with Statement of Position 91-1, "Software Revenue
Recognition." Subsequent to December 31, 1997, we began recognizing revenue in
accordance with Statement of Position 97-2, "Software Revenue Recognition."
SOP 97-2 was amended on March 31, 1998 by SOP 98-4 "Deferral of the Effective

Date of a Provision of SOP 97-2." In December 1998, the AICPA issued SOP 98-9 "Modification of SOP 97-2, Software Revenue Recognition", which amends SOP 98-4, and is effective after December 31, 1998. Management has assessed these new statements and believes that their adoption will not have a material effect on the timing of our revenue recognition or cause changes to our revenue recognition policies. Product license revenues are generally recognized upon the execution of a contract and shipment of the related software product, provided that no significant Company obligations remain outstanding and the resulting receivable is deemed collectible by management. Maintenance revenues are derived from customer support agreements generally entered into in connection with initial product license sales and subsequent renewals. Fees for our maintenance and support plans are recorded as deferred revenue when billed to the customer and recognized ratably over the term of the maintenance and support agreement, which is typically one year. Fees for our education and consulting services are recognized at the time the services are performed.

   The sales cycle for our products may span nine months or more. Historically, we have recognized a substantial portion of our revenues in the last month of a quarter, with these revenues frequently concentrated in the last two weeks of a quarter. Even minor delays in booking orders may have a significant adverse impact on revenues for a particular quarter. To the extent that delays are incurred in connection with orders of significant size, the impact will be correspondingly greater. Moreover, we currently operate with virtually no order backlog because our software products typically are shipped shortly after orders are received. Product license revenues in any quarter are substantially dependent on orders booked and shipped in that quarter. As a result of these and other factors, our quarterly results have varied significantly in the past and are likely to fluctuate significantly in the future. Accordingly, we believe that quarter-to-quarter comparisons of our results of operations are not necessarily indicative of the results to be expected for any future period. See "Risk Factors--Potential Fluctuations in Quarterly Operating Results."

   We license our software through our direct sales force and increasingly through, or in conjunction with, Value Added Resellers ("VARs") and Original Equipment Manufacturers ("OEMs"). Channel partners accounted for, directly or indirectly, approximately 35.0%, 27.5%, and 9.0% of our revenues for the years ended December 31, 1998, 1997 and 1996, respectively. Although we believe that direct sales will continue to account for a majority of product license revenues, we intend to increase the level of indirect sales activities. As a result, we expect that sales of our product licenses through sales alliances, distributors, resellers and other indirect channels will increase as a percentage of product license revenues. However, there can be no assurance that our efforts to continue to expand indirect sales will be successful. We also intend to continue to expand our international operations and have committed, and continue to commit, significant management time and financial resources to developing direct and indirect international sales and support channels.

RESULTS OF OPERATIONS

   The following table sets forth for the periods indicated the percentage of total revenues represented by certain items reflected in our consolidated statements of operations:

| | Year ended December 31, | | |
	1998	1997	1996
Consolidated Statements of Operations Data:			
Revenues:			
Product licenses	68.3%	68.3%	70.2%
Product support	31.7	31.7	29.8
Total revenues	100.0	100.0	100.0
Cost of revenues:			
Product licenses	2.1	3.1	4.5
Product support	16.5	17.7	18.7
Total cost of revenues	18.6	20.8	23.2
Gross margin	81.4	79.2	76.8
Operating expenses:			
Sales and marketing	50.2	56.9	57.8
Research and development	11.4	9.4	12.6
General and administrative	11.1	12.2	16.6
Total operating expenses	72.7	78.5	87.0
Income (loss) from operations	8.7	0.7	(10.2)

Interest income..	1.0	0.2	0.1
Interest expense...	(0.7)	(0.7)	(0.6)
Other income (expense), net..................................	--	--	0.1
Provision for income taxes...................................	(3.2)	--	--
	-----	-----	------
Net income (loss)..	5.8%	0.2%	(10.6)%
	=====	=====	======

COMPARISON OF YEARS ENDED DECEMBER 31, 1998 AND 1997

  Revenues.   Total revenues increased to $106.4 million for the year ended
December 31, 1998 from $53.6 million in the year ended December 31, 1997,
representing an increase of 98.5%. Total revenues consist of revenues derived
from sales of software product licenses, services and maintenance. There can be
no assurance that total revenues will continue to increase at the rates
experienced in prior periods, if at all.

  Product License Revenues.   Product license revenues increased to $72.7
million for the year ended December 31, 1998 from $36.6 million in the same
period ended December 31, 1997, representing an increase of 98.6%. Product
license revenues constituted 68.3% of total revenues for the years ended
December 31, 1998 and 1997. The significant increase in the dollar amount of
product license revenues was due to growing market acceptance of our software
products and continued expansion of our sales and marketing organization.

  Product Support Revenues.   Product support revenues increased to $33.7
million for the year ended December 31, 1998 from $17.0 million in the same
period ended December 31, 1997, representing an increase of 98.2%. Product
support revenues constituted 31.7% of total revenues for the years ended
December 31, 1998 and 1997. The significant increase in the dollar amount of
product support revenues was primarily due to the increase in the number of DSS
licenses sold. We expect product support revenues as a percentage of total
revenues to fluctuate on a period to period basis, but generally not to vary
significantly from the percentage of total revenues achieved in 1997 and 1998.
However, an element of our sales and marketing strategy is to leverage third-
party implementation services to enable us to more rapidly penetrate our target
market. To the extent that such efforts are successful, our product support
revenues could decline as a percentage of total revenues.

  International Revenues.   We recognized $25.1 million and $14.3 million of
international revenues for the years ended December 31, 1998 and 1997,
representing approximately 23.6% and 26.7% of total revenues, respectively. We
opened sales offices in Australia, Canada and Italy in 1998; in Austria, France
and the Netherlands in 1997; in Germany in 1996; in the United Kingdom in 1995;
and in Spain in 1994.

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 Costs and Expenses

  Cost of Product License Revenues.   Cost of product license revenues consists
primarily of the costs of product manuals, media, amortization of capitalized
software and shipping paid to third parties. Cost of product license revenues
was $2.2 million and $1.6 million for the years ended December 31, 1998 and
1997, representing 3.1% and 4.5% of total product license revenues,
respectively. The increase in the dollar amount of our cost of product licenses
was directly attributable to the increase in our product license revenues
coupled with the amortization of capitalized software. The total cost of product
license revenues as a percentage of revenues decreased during the year ended
December 31, 1998 from the year ended December 31, 1997, due to economies of
scale realized by producing larger volumes of product materials and an
increasing number of customers reproducing licenses at their sites. We
anticipate that the cost of product license revenues will increase in dollar
amount as license fee revenues increase, but remain relatively constant as a
percentage of product license revenues. However, in the event that we enter into
any royalty arrangements in the future, cost of product license revenues as a
percentage of total product license revenues may increase.

  Cost of Product Support Revenues.   Cost of product support revenues consists
of the costs of providing telephone support, training and consulting services to
customers and partners. Cost of product support revenues was $17.5 million and
$9.5 million for the years ended December 31, 1998 and 1997, representing 52.0%
and 55.9% of total product support revenues, respectively. The increase in the
dollar amount of our cost of product support revenues was primarily due to the
increase in the number of personnel providing consulting, training, and

telephone support to customers and to the training and related costs associated with increasing personnel levels. Despite the increases in personnel and other costs for the year ended December 31, 1998, the total cost of product support revenues remained constant as a percentage of revenues during the year ended December 31, 1998 compared to the year ended December 31, 1997 primarily due to increases in maintenance revenues which typically do not require proportionate increases in the costs required to perform associated maintenance services. We expect to continue to increase the number of training and implementation consultants in the future, as well as technical support personnel. To the extent that our product support revenues do not increase at anticipated rates, the hiring of additional consultants and technical support personnel could increase the cost of product support revenues as a percentage of product support revenues.

Sales and Marketing Expenses.   Sales and marketing expenses include personnel costs, commissions, office facilities, travel, promotional events such as trade shows, seminars and technical conferences, advertising and public relations programs. Sales and marketing expenses were $53.4 million and $30.5 million for the years ended December 31, 1998 and 1997, representing 50.2% and 56.9% of total revenues, respectively. The significant increase in sales and marketing expenses for the year ended December 31, 1998 was primarily due to increased staffing as we established new domestic and international sales offices and expanded our existing direct sales force and, to a lesser extent, increased commissions to sales representatives as a result of increased sales of software licenses and increased promotional activities relating to the announcement of certain product enhancements or releases. We believe that it is critically important to gain market share among high-end customers. We have invested and will continue to invest heavily in sales and marketing in order to create better market awareness of the value-added potential of DSS products and to acquire market share. We believe that the dollar amount of sales and marketing expenses will continue to increase, but are expected to decrease over time as a percentage of total revenues from the levels experienced in 1998.

Research and Development Expenses.   Research and development expenses consist primarily of salaries and benefits of software engineering personnel, payments to contract programmers, depreciation of equipment and expendable equipment purchases. Research and development expenses were $12.1 million and $5.0 million for the years ended December 31, 1998 and 1997, representing 11.4% and 9.3% of total revenues, respectively. The increase in research and development expenses was primarily due to additional hiring of research and development personnel. We expect that research and development expenses will continue to increase in dollar amount as we continue to invest in developing new products, applications and product enhancements. In 1997, in accordance with SFAS No. 86, we capitalized research and development costs due to the significant increase in product development activities associated with the version 5.0 release of our DSS software product line. As a result, we capitalized approximately $1.9 million of research and development costs during the year ended December 31, 1997. During the year ended December 31, 1998, in accordance with SFAS No. 86, the costs incurred between the establishment of technological feasibility and general availability of our products were not material and therefore such amounts have been expensed rather than capitalized.

General and Administrative Expenses.   General and administrative expenses include the personnel and other costs of our finance, human resources, information systems, administrative and executive departments. General and

administrative expenses were $11.8 million and $6.6 million for the years ended December 31, 1998 and 1997, representing 11.1% and 12.2% of total revenues, respectively. The increase in the dollar amount of general and administrative expenses was primarily the result of increased staff levels and related costs associated with the growth of our business during these periods. Although we expect that the dollar amount of general and administrative expenses will continue to increase in the foreseeable future, such expenses are not expected to increase as a percentage of total revenues.

Deferred Compensation Expense.   During the year ended December 31, 1998, we granted approximately 1,877,000 options to purchase shares of common stock, of which options to purchase approximately 536,000 shares of common stock were granted at exercise prices below fair market value. We will amortize approximately $1.3 million of compensation expense relating to these options ratably over the five year vesting period of these options. In addition, we issued 50,000 warrants to purchase Class A Common Stock, which resulted in

deferred compensation expense of $0.9 million. For the year ended December 31, 1998 compensation expense related to the aforementioned options and warrants is $0.2 million. We will record additional compensation expense relating to the options to be allocated across the above expense categories, as appropriate, for the years ending December 31, 1999, 2000, 2001, 2002 and 2003 of $0.5 million, $0.5 million, $0.5 million, $0.5 million and $0.3 million, respectively.

   Provision for Income Taxes.   Prior to consummation of the Initial Public Offering, we had elected to be treated as a Subchapter S corporation for federal and state income tax purposes. Under Subchapter S, our income was allocated and taxable to our individual stockholders rather than to us. Accordingly, no federal or state income taxes have been provided for in the financial statements, prior to consummation of the Initial Public Offering.

   Our S corporation status was terminated shortly prior to consummation of the Initial Public Offering at which time we became subject to federal and state corporate income taxation as a Subchapter C corporation. As a result, we account for income taxes as a Subchapter C corporation and have adopted SFAS No. 109, "Accounting for Income Taxes." We recorded income tax expense of $3.4 million for the year ended December 31, 1998. The adoption of SFAS No. 109 did not have a material impact on our operating results. As of December 31, 1998, our deferred tax assets of approximately $5.8 million consist primarily of net operating loss carryforwards related to foreign operations. We recorded a valuation allowance on a portion of the net deferred tax assets related to foreign net operating losses which in our opinion, may not be realizable. Our effective tax rate for the period ended December 31, 1998 was approximately 36%. Had we been a C Corporation throughout 1998, we would have recorded a provision of $3.6 million.

COMPARISON OF YEARS ENDED DECEMBER 31, 1997 AND 1996

   Revenues.   Total revenues increased 136.9% to $53.6 million for the year ended December 31, 1997 from $22.6 million for the year ended December 31, 1996.

   Product License Revenues.   Product license revenues increased 130.6% to $36.6 million for the year ended December 31, 1997 from $15.9 million for the year ended December 31, 1996, representing 68.3% and 70.2% of total revenues, respectively. The significant increase in product license revenues was due to growing market acceptance of our software products and continued expansion of our sales and marketing organization.

   Product Support Revenues.   Product support revenues increased 151.9% to $17.0 million for the year ended December 31, 1997 from $6.7 million for the year ended December 31, 1996, representing 31.7% and 29.8% of total revenues, respectively. The increase in the dollar amount of product support revenues was primarily due to the increase in the number of DSS licenses sold.

   International Revenues.   We recognized $14.3 million and $2.5 million of international revenues for the years ended December 31, 1997 and 1996, representing approximately 26.7% and 11.1% of total revenues, respectively.

   Costs and Expenses

   Cost of Product License Revenues.   Cost of product license revenues increased to $1.6 million for the year ended December 31, 1997 from $1.0 million for the same period ended December 31, 1996, representing 4.5% and 6.4% of total product license revenues, respectively. The increase in our cost of product licenses was directly attributable to the increase in our product license revenue, coupled with the amortization of capitalized software. The total cost of product

license revenues as a percentage of revenues decreased during 1997 from the same period in 1996 due to economies of scale realized by producing larger volumes of product materials and an increasing number of customers reproducing licenses at their sites.

   Cost of Product Support Revenues.   Cost of product support revenues increased to $9.5 million for the year ended December 31, 1997 from $4.2 million for the same period ended December 31, 1996, representing 55.9% and 63.0% of total product support revenues, respectively. The increase in our cost of product support revenues in 1997 was primarily due to the increase in the number of personnel providing consulting, training, and telephone support to customers and

to the training and related costs associated with increasing personnel levels.

   Sales and Marketing Expenses.   Sales and marketing expenses increased to
$30.5 million for the year ended December 31, 1997 from $13.1 million for the
same period ended December 31, 1996, representing 56.9% and 58.0% of total
revenues, respectively. The increase in sales and marketing expenses in 1998
was primarily due to increased staffing as we established new international
sales offices and expanded our existing direct sales force in addition to
increased commissions to sales representatives as a result of increased sales of
software licenses and increased promotional activities relating to the
announcement of certain product enhancements or releases.

   Research and Development Expenses.   Research and development expenses
increased to $5.0 million for the year ended December 31, 1997 from $2.8 million
for the same period ended December 31, 1996, representing 9.3% and 12.4% of
total revenues, respectively. The increase in research and development expenses
was primarily due to additional hiring of research and development personnel.
We expect that research and development expenses will continue to increase in
dollar amount as we continue to invest in developing new products, applications
and product enhancements. In 1996, in accordance with SFAS No. 86, we
capitalized research and development costs due to the significant increase in
product development activities associated with the version 5.0 release of our
DSS software product line. As a result, we capitalized approximately $1.9
million of research and development costs during the year ended December 31,
1997. During the year ended December 31, 1996, in accordance with SFAS No. 86,
the costs incurred between the establishment of technological feasibility and
general availability of our products were not material and therefore have been
expensed rather than capitalized.

   General and Administrative Expenses.   General and administrative expenses
increased to $6.6 million for the year ended December 31, 1997 from $3.7 million
for the same period ended December 31, 1996, representing 12.2% and 16.6% of
total revenues, respectively. The increase in the dollar amount of general and
administrative expenses was primarily the result of increased staffing and
related costs associated with the growth of our business during these periods.

   Provision for Income Taxes.   Prior to consummation of our Initial Public
Offering, we had elected to be treated as a Subchapter S corporation for federal
and state income tax purposes. Under Subchapter S, our income was allocated and
taxable to our individual stockholders rather than to us. Accordingly, no
federal or state income taxes have been provided for in our financial statements
for periods prior to consummation of the Initial Public Offering.

   Our S corporation status terminated shortly prior to consummation of the
Initial Public Offering. We are now subject to federal and state corporate
income taxation as a Subchapter C corporation. As a result, we have adopted
SFAS No. 109, "Accounting for Income Taxes." The adoption of SFAS No. 109 did
not have a material impact on our operating results. As of December 31, 1997,
our deferred tax assets would have been approximately $3.0 million consisting
primarily of net operating loss carryforwards related to foreign operations and
differences between tax and book treatment of allowances and reserves. We would
have recorded a valuation of $1.8 million primarily due to the lack of
consistent earnings in certain foreign operations and the uncertainty as to
whether the deferred tax asset related to those foreign operations' net
operating losses is realizable.

Effects of Inflation

   We believe that inflation and changing prices over the past three years have
not had a significant impact on our net sales and revenues or on income from
continuing operations.

RECENTLY ISSUED ACCOUNTING STANDARDS

   During the year ended December 31, 1998, we adopted Statement of Financial
Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income,"
which requires additional disclosures with respect to certain changes in assets
and liabilities that previously were not required to be reported as results of
operations for the period. In addition, we adopted SFAS No. 131, "Disclosures
about Segments of an Enterprise and Related Information," which establishes
standards for the manner in which public companies report information about

operating segments, products and services, geographic areas and major customers in annual and interim financial statements. We do not expect SFAS No. 131 to materially impact our financial statement disclosures.

LIQUIDITY AND CAPITAL RESOURCES

  Since our inception through the date of our Initial Public Offering, we had primarily financed our operations and met our capital expenditure requirements through cash flows from operations and short- and long-term borrowings. We raised $48.1 million, net of expenses, from our Initial Public Offering. As a result, at December 31, 1998 and December 31, 1997, we had $27.5 million and $3.5 million, respectively, of cash and cash equivalents.   On February 10, 1999, we raised an additional $40.1 million, net of expenses, from the sale of 1,585,000 shares of Class A Common Stock.

  Cash flows (used in) provided by operations were $(2.5) million and $5.0 million for the years ended December 31, 1998 and 1997, respectively. The decrease in cash provided by operations in the year ended December 31, 1998 was primarily due to an increase in accounts receivable, offset by an increase in accounts payable and other accrued liabilities.

  Our investing activities used cash of $9.3 million and $7.9 million for the years ended December 31, 1998 and 1997, respectively. The principal use of cash in investing activities was for capital expenditures related to the acquisition of computer equipment required to support expansion of our operations.

  Our financing activities provided cash of $35.7 million and $4.6 million for the years ended December 31, 1998 and 1997, respectively. The principal source of cash from financing activities during the year ended December 31, 1998 was the Initial Public Offering pursuant to which we raised $48.1 million, net of expenses, which was offset by net principal payments on bank borrowings of $7.8 million. Prior to the Initial Public Offering, our principal source of cash from financing activities was net borrowings from commercial lending institutions. During December 1996, we entered into the Business Loan. The Business Loan, as amended in September 1998, provides for a $5.0 million revolving line of credit for general working capital purposes. Borrowings under the Business Loan may not exceed 80% of eligible accounts receivable for the revolving working capital line of credit.   The borrowings bear interest at the lender's prime rate or LIBOR plus 1.50% for the revolving line of credit. Borrowings under the Business Loan are collateralized by substantially all of our assets. In July 1998, we repaid all net borrowings under the Business Loan. As of December 31, 1998, no amounts were outstanding under the Business Loan.

  Subsequent to year end, we signed a commitment letter to expand the Business Loan to a $25.0 million revolving line of credit. Borrowings under the expanded revolving line of credit will bear interest at a variable rate equal to LIBOR plus 1.0% to 1.75% depending upon the ratio of funded debt to earnings.

  We declared and paid a $10 million dividend to our shareholders prior to the Initial Public Offering. The dividend was paid in the form of the Dividend Notes prior to the termination of our S corporation election, which occurred immediately prior to the consummation of the Initial Public Offering. The Dividend Notes have (i) a term of one year; (ii) bear interest at 5.46%, and (iii) are payable in four equal quarterly installments. The Dividend Notes may be prepaid without penalty at any time at our option. We intend to repay the Dividend Notes from cash flows generated from operations, current available cash and cash equivalents, and, to the extent that other sources are insufficient for this

purpose, from the proceeds of the Initial Public Offering. As of December 31, 1998, $5.0 million of the Dividend Notes had been repaid.

  We believe that the proceeds generated by the sale of Class A Common Stock offered by us in our Initial Public Offering, and our Secondary Offering, the available borrowings under the Business Loan and the cash generated internally by operations will satisfy our working capital requirements for the foreseeable future.

RISK FACTORS

Management's Discussion and Analysis of Financial Condition and Results of Operations contains a number of forward-looking statements. These statements are based on current expectations and actual results could differ significantly. Among the factors that could cause actual results to differ are the following:

Limited Operating History; Uncertainty of Future Operating Results

  We began shipping DSS Agent, the first product in our current product family, in 1994, and we introduced many of our other products in 1995. Our limited operating history makes predicting future operating results difficult, if not impossible. In addition, we had net losses and losses from operations in 1996 and 1994 and were only marginally profitable in 1997 and 1995. Although our revenues have grown in recent periods, we cannot be certain that we will sustain or increase our revenues or improve our operating results in the future.

Quarterly Operating Results May Fluctuate Significantly

  For a number of reasons, including those described below, our operating results, revenues and expenses may vary significantly from quarter to quarter.

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

  . the size and timing of significant orders;

  . the timing of new product announcements;

  . changes in our pricing policies or those of our competitors;

  . market acceptance of decision support software generally and of new and
    enhanced versions of our products in particular;

  . the length of our sales cycles;

  . changes in our operating expenses;

  . personnel changes;

  . our success in expanding our direct sales force and adding to our indirect
    distribution channels;

  . the pace and success of our international expansion;

  . delays or deferrals of customer implementation; and

  . changes in foreign currency exchange rates.

  Fluctuations in Revenues. In the past, we have typically recognized much of the revenue for any quarter in the last two to four weeks of that quarter. As a result, even minor delays in booking orders near the end of a quarter can adversely affect that quarter's revenues, particularly when large orders are involved.

  Because we ship most of our software products shortly after they are ordered, we have almost no order backlog. Accordingly, product license revenues for any quarter depend largely on orders booked and shipped in that quarter. Product license revenues also fluctuate because the market for our products is evolving rapidly and because sales cycles, which may last many months, vary widely from customer to customer. Sales cycles are affected by many factors over which we have little or no control, including:

  . customers' budgetary constraints;

  . the timing of budget cycles;

  . concerns about the introduction of new products by us or our competitors;
    and

  . potential downturns in the economy, which may reduce demand for management
    information systems.

  Product support revenues depend largely on maintenance revenues from existing

customers and will vary with those customers' maintenance needs.

   Seasonal factors may also affect our revenues. For example, the pace of new
sales tends to slow in the summer.

   Limited Ability to Adjust Expenses. Because we plan to expand our business, we
expect our operating costs and expenses to increase substantially. Operating
costs and expenses we expect to increase include those associated with expanding
our technical support, research and development and sales and marketing
organizations. We also expect to devote substantial resources to expanding our
indirect sales channels and international operations. We base our operating
expense budgets on expected revenue trends. We may not be able to reduce the
operating costs and expenses associated with our expansion (or even the rate at
which those operating costs and expenses grow) in the short term even if
expected revenue trends match our actual revenues. As a result, variations in
the timing and amounts of revenue could materially adversely affect our
quarterly operating results.

   Based on the above factors, we believe that quarter-to-quarter comparisons of
our operating results are not a good indication of our future performance. It is
likely 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
price of our Class A Common Stock may fall.

Sales May Be Delayed or Lost Due to Long Sales and Implementation Cycles for Our
Products

   To date, our customers have typically invested substantial time, money and
other resources and involved many people in the decision to license our software
products. As a result, we may wait nine months or more after first contact for
customers to place orders while they seek internal approval for, among other
things, the necessary capital expenditures. During this long sales cycle,
certain events may occur that affect the size or timing of the order or even
cause it to be canceled. For example, our competitors may introduce new
products, or the customer's own budget and purchasing priorities may change. It
is also possible that our customers will divert technology expenditures in 1999
to fund Year 2000 compliance plans. See "Year 2000 Issues; Potential Impact on
Customers."

   Even after an order is placed, the time it takes to deploy our products (the
implementation cycle) varies widely from one customer to the next. The
implementation cycle can sometimes last several months, depending on the
customer's data warehousing and other requirements, and may begin only with a
pilot program. It may be difficult to deploy our products if the customer has
complicated deployment requirements, which typically involve integrating
databases, hardware and software from different vendors. If a customer hires a
third party to deploy our products, we cannot be sure that our products will be
deployed successfully.

   These and other events affecting the sales and implementation cycles for our
products could materially adversely affect our business, operating results or
financial condition.

Increased Competition May Lead to Lower Prices, Reduced Gross Margins and Loss
of Market Share

   The markets for decision support and Internet-based information services are
intensely competitive and subject to rapidly changing technology. In addition,
many of our competitors in these markets are offering (or may soon offer)
products and services that may compete with our information analysis and
broadcasting products.

   Our most direct competitors in the markets for decision support and Internet-
based information services provide:

   . decision support software;

   . push products;

   . browsers with webcasting functionality;

   . electronic and Internet commerce systems;

. vertical Internet information systems;

. wireless communications products;

. online services; and

. event-driven technology.

Each of these products or services is discussed more fully below.

Decision Support Software. In the decision support market, we compete with vendors of relational online analytical processing software, such as Information Advantage, Inc. and Platinum Technology Incorporated; vendors of desktop online analytical processing, or OLAP, software, such as Business Objects S.A. and Cognos Incorporated; and vendors of multidimensional OLAP software, such as Oracle Corporation, Hyperion Solutions Corporation (which has entered into a strategic relationship with International Business Machines Corporation), Seagate Software, Inc. and SAS Institute Incorporated.

We expect continued growth and competition in this market. In addition, new competitors may emerge. Microsoft Corporation, for example, has indicated that it will introduce certain products in 1999 that may compete with ours.

Push Products. Our competitors in the push product market, including PointCast Incorporated, Marimba, Inc. and BackWeb Technologies Inc., offer technologies that deliver information over the Internet to recipients via Web browsers and proprietary interfaces. Push product vendors mostly deliver text-based information, such as news and sports, but often include some number-based information, such as stock price updates. Marimba is expanding its services to include the delivery of information and analysis from relational data sources, which could provide us with increased competition in this market.

Browsers with Webcasting Functionality. Web browsers with channels or the ability to webcast, such as Microsoft Internet Explorer or Netscape Navigator, provide an infrastructure for automatically updating information on a recipient's computer. This infrastructure is a competitive alternative to our DSS Broadcaster product line (although we use the same infrastructure to enhance our DSS Web product line).

Electronic and Internet Commerce Systems. Products and turn-key solutions for electronic commerce, Internet commerce and electronic business, such as those provided by IBM, Open Market Inc., USWeb/CKS Corp., Viant Corporation and Sun Microsystems, Inc., can be used to provide Internet-based information services. To the extent they can be used to deliver information and analysis from relational database management systems, these products will compete with ours.

Vertical Internet Information Systems. Microsoft Expedia, Microsoft Investor, StockBoss, Microsoft CarPoint, Mercury Mail, TechWeb, ESavers (US Airways, Inc.), C.O.O.L. (Continental Airlines, Inc.), Internet Travel Network and others have developed custom applications and products to commercialize, analyze and deliver specific information over the Internet. These systems are usually tailored to one application, such as delivering stock prices, and cannot easily be used for others, such as delivering airfares. However, they pose a competitive risk because, as a group, they offer applications similar to some that have been developed using our products.

Wireless Communications Products. Wireless communications and messaging providers, such as AT&T Corp., Nextel Communications, Sprint Corporation, MCI WorldCom, Inc., Iridium LLC, PageNet, Inc. and SkyTel Corp., offer a variety of alpha-enabled mobile phones and pagers. It is possible that these companies will someday offer custom-developed information services to their customers that will compete with applications using our products and services.

Online Service Providers. Online service providers include America Online, Inc., Microsoft's Microsoft Network, Prodigy, Inc., @Home Corporation and WebTV Networks, Inc. (acquired by Microsoft). These companies provide text-based information over the Internet and on proprietary online services. They could develop applications that compete with the functionality of our products.

Event-Driven Technology. Providers of event notification systems include TIBCO Finance Technology Inc., which sells a product that monitors stock tickers and

notifies subscribers when preset thresholds are crossed; Clarify Inc., which handles loan applications with a financial system developed by SAP AG; BEA Systems, Inc., which provides middleware; and Vitria Technology Inc., which provides event-based workflow software. The technology resulting from these systems has overlapped with our technology in the past and may do so in the future.

  We believe that we set ourselves apart from the competition by offering comprehensive support for all significant relational database management system platforms. If a single competing vendor gains a large share of the relational database management system market, we may find it more difficult to differentiate our products. This may materially adversely affect our business, operating results and financial condition.

  Many of our competitors have longer operating histories, significantly greater financial, technical, marketing or other resources, and greater name recognition than we do. In addition, many of our competitors have strong relationships with current and potential customers and extensive knowledge of the data warehouse industry. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products, than we can. Increased competition may lead to price cuts, reduced gross margins and loss of market share. We cannot be sure that we will be able to compete successfully against current and future competitors or that the competitive pressures we face will not materially adversely affect 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, they may increase their ability to meet the needs of our potential customers. Our current or future indirect channel partners may establish cooperative relationships with our current or future competitors. Such relationships may limit our ability to sell our products through certain distribution channels. Accordingly, it is possible that new competitors or alliances among current and future competitors may emerge and rapidly gain significant market share. These developments could have a material adverse effect on our margins and on our ability to obtain maintenance revenues for new and existing product licenses on favorable terms.

Continued Growth Will Increase Demands on Resources

  All areas of our operations are expanding rapidly, and we expect this expansion to continue. The total number of our employees grew from 59 on January 1, 1995 to 907 on December 31, 1998, and we expect our number of employees to continue to increase. We have placed significant demands on our administrative, operational, financial, and personnel resources and expect to continue doing so. In particular, we expect the current and planned growth of our international operations to lead to increased financial and administrative demands. Expanded facilities will complicate operations, managing relationships with new foreign partners will mean additional administrative burdens, and managing foreign currency risks will require expanded treasury functions. We may also need to greatly expand our support organization to further develop indirect distribution channels in different and broader markets and to accommodate growth in our installed customer base. Failure to effectively manage our expansion could have a material adverse effect on our business, operating results and financial condition.

Need to Recruit Additional Skilled Personnel; Dependence on Key Personnel

  Our future success depends on our continuing ability to attract, train, assimilate and retain highly qualified personnel. Competition for these personnel is intense. We may not be able to retain our current key employees or attract, train, assimilate or retain other highly qualified personnel in the future. Our future success also depends in large part on the continued service of key management personnel, particularly Michael J. Saylor, our President and Chief Executive

Officer, and Sanju K. Bansal, our Executive Vice President and Chief Operating Officer. Losing the services of one or more of these individuals or other key personnel could materially adversely affect our business, operating results and financial condition.

Dependence on New Versions, New Products and Rapid Technological Change

   The market for our products is characterized by rapid technological change, frequent new product introductions and enhancements, uncertain product life cycles, changing customer demands and evolving industry standards. The introduction of products embodying new technologies and the emergence of new industry standards can quickly make existing products obsolete and unmarketable. The emergence of new standards in related fields may also adversely affect existing products. This could happen, for example, if new Web protocols emerged that were incompatible with deployment of our DSS applications over the Web. Although our DSS solutions allow the core database component to reside on nearly all enterprise server hardware and operating system combinations (Mainframe, AS/400, Unix, Windows NT and Windows), our application server component runs at present only on the Windows NT operating system. Therefore, our ability to increase sales may depend on the continued acceptance of the Windows NT operating system. We cannot market our current DSS applications to potential customers who use Unix operating systems as their application server. We would have to invest substantial resources to develop a Unix product, and we cannot be sure that we could introduce such a product on a timely or cost effective basis, if at all.

   We believe that our future success depends largely on three factors: our ability to continue to support a number of popular operating systems and databases; our ability to maintain and improve our current product line; and our ability to timely develop new products that achieve market acceptance, maintain technological competitiveness and meet an expanding range of customer requirements. DSS applications, however, are inherently complex, and it can take a long time to develop and test major new products and product enhancements. In addition, customers may delay their purchasing decisions because they anticipate that new or enhanced versions of our products will soon become available. Moreover, only a few of our customers to date have deployed our products in environments that involve terabytes of data and thousands of active users. As deployment in these complex environments becomes more widespread, unexpected delays or other difficulties may arise. As a result, lengthy delays in the general availability of new releases or significant problems in installing or implementing new releases could arise that will have a material adverse effect on our business, operating results and financial condition. We cannot be sure that we will succeed in developing and marketing, on a timely and cost effective basis, product enhancements or new products that respond to technological change, evolving industry standards or customer requirements. Nor can we be sure that we will not have difficulties that could delay or prevent the successful development, introduction or marketing of these enhancements. Finally, we cannot be sure that our new products and product enhancements will achieve market acceptance.

Government Regulation and Other Legal Uncertainties

   We are not directly regulated by any governmental agency, although we are subject to the laws that generally apply to businesses. Certain U.S. and foreign laws restricting the use of consumers' personal information may also apply to us. Due to increasing use of the Internet and the dramatically increased access to personal information made possible by technologies like ours, laws and regulations may be adopted in the U.S. and abroad to limit access to personal information over the Internet and other public data networks in ways that adversely affect our business. The European Union Directive on Data Protection, a comprehensive administrative and regulatory program controlling many aspects of personal data collection and distribution, was required to be implemented by its member nations in October 1998. This Directive limits the ability of companies to collect, store and exchange personal data with other entities. In response to consumer pressures, the U.S. Congress and various state legislatures are considering legislation that would apply to us in areas such as privacy protection. It is possible that some or all of this legislation may become law.

   Although existing laws govern such issues as personal privacy over the Internet or other public data networks, it is unclear whether they apply to us. Most of these laws were adopted before the widespread use and commercialization of the Internet and other public data networks. As a result, these laws do not address the unique issues presented by these media.

   Any new law or regulation or any expanded governmental enforcement of existing regulations may limit our growth or increase our legal exposure, which could have a material adverse effect on our business, financial condition and results of operations.

Dependence on Growth of Market for Decision Support Software

  All of our revenues have come from sales of decision support software and
related maintenance, consulting and training services. We expect these sales to
account for substantially all of our revenues for the foreseeable future.
Although demand for decision support software has grown in recent years, the
market for decision support software applications is still emerging. Resistance
from consumer and privacy groups to increased commercial collection and use of
data on spending and other personal behavior may impair the further growth of
this market, as may other developments. We cannot be sure that this market will
continue to grow or that, even if it does grow, businesses will adopt our
solutions. We have spent, and intend to keep spending, considerable resources to
educate potential customers about decision support software generally and our
solutions in particular. However, we cannot be sure that these expenditures will
help our products achieve any additional market acceptance. If the market fails
to grow or grows more slowly than we currently expect, our business, operating
results and financial condition would be materially adversely affected.

Control by Existing Stockholders; Anti-Takeover Effect of Two Classes of Common
Stock

  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. Following the February 10, 1999 offering, holders of our Class B Common
Stock will own or control 30,167,614 shares of Class B Common Stock, or 97.7% of
our voting power. Michael J. Saylor, our Chairman, President and Chief Executive
Officer, through his sole ownership and control of Alcantara LLC, will control
22,424,662 shares of Class B Common Stock and 50,000 shares of Class A Common
Stock, or 72.6% of our voting power. Accordingly, Mr. Saylor will be able to
control MicroStrategy through his ability to determine the outcome of elections
of our directors, amend our Certificate of Incorporation and Bylaws and take
certain 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
(almost all of whom are employees of our company or related parties) to transfer
shares of Class B Common Stock to Class A Common Stock, subject to the approval
of a majority of the holders of outstanding Class B Common Stock. Mr. Saylor or
a group of stockholders possessing a majority of the outstanding Class B Common
Stock could, without seeking anyone else's approval, transfer voting control of
MicroStrategy to a third party. Such a transfer of control could have a material
adverse effect on our business prospects and financial condition. Mr. Saylor
will also be able to prevent a change of control of MicroStrategy, regardless of
whether holders of Class A Common Stock might otherwise receive a premium for
their shares over the then-current market price.

Reliance on Channel Partners

  In addition to our direct sales force, we rely on channel partners, such as
original equipment manufacturers and value-added resellers, to license and
support our products in the United States and internationally. In particular,
for 1998 and 1997, channel partners accounted directly or indirectly for 35.0%
and 27.5% of our total revenues, respectively. Our channel partners generally
offer customers the products of several different companies, including some
products that compete with ours. We intend to expand our relationships with
strategic partners and to increase the proportion of our customers licensed
through these indirect channels. We are currently investing, and intend to
increasingly invest, significant resources to develop these channels. If these
efforts do not generate significant license revenues, our operating results
could be adversely affected.

  We cannot be sure that we will attract strategic partners who will market our
products effectively and who will be qualified to provide timely and cost-
effective customer support and service. Our ability to achieve revenue growth in
the future will depend in part on our success in recruiting and maintaining
successful relationships with those strategic partners.

Risks Associated with Intellectual Property

  We regard our software products as proprietary, and we rely on a combination
of statutory and common law copyright, trademark and trade secret laws, customer

licensing agreements, employee and third-party nondisclosure agreements and other methods to protect our proprietary rights. However, these laws and contractual provisions provide

only limited protection. We have no patents or patent applications pending, no registered trademarks (other than MicroStrategy or QuickStrike) and no registered copyrights (other than the EISToolkit 2.0 reference manual). Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Policing such unauthorized use is difficult, and we cannot be certain that we can prevent it, particularly in countries where the laws may not protect our proprietary rights as fully as in the United States.

As the number of software products in our target markets increases and the functionality of these products further overlap, software developers may become increasingly subject to infringement claims. Someone may even claim that our technology infringes their proprietary rights. Any such claims, whether with or without merit, can be time consuming and expensive to defend, may divert management's attention and resources, could cause product shipment delays and could require us to enter into costly royalty or licensing agreements. If successful, a claim of product infringement against us and our inability to license the infringed or similar technology could adversely affect our business.

Difficulties Associated with International Operations and Expansion

International sales accounted for 23.6%, 26.6%, and 11.1% of our total revenue for the years ended December 31, 1998, 1997, and 1996, respectively. We plan to continue expanding our international operations and to enter new international markets. This will require significant management attention and financial resources and could adversely affect our business, operating results or financial condition. In order to expand international sales successfully in 1999 and beyond, we must set up additional foreign operations, hire additional personnel and recruit additional international resellers and distributors. We cannot be sure that we will be able to do so in a timely manner, and our failure to do so may limit our international sales growth. Nor can we be sure that we will be able to maintain or increase international market demand for our products.

There are certain risks inherent in our international business activities. In addition to the currency fluctuations described below, these include:

    . unexpected changes in regulatory requirements;

    . tariffs and other trade barriers;

    . costs of localizing products for foreign countries;

    . lack of acceptance of localized products in foreign countries;

    . longer accounts receivable payment cycles;

    . difficulties in managing international operations;

    . tax issues, including restrictions on repatriating earnings;

    . weaker intellectual property protection; and

    . the burden of complying with a wide variety of foreign laws.

These factors may have a material adverse effect on our future international sales and, consequently, our results of operations.

Currency Fluctuations

Our international revenues and expenses are denominated in foreign currencies, principally the British Pound Sterling and the German Deutsche Mark. The functional currency of each of our foreign subsidiaries is our local currency. Our foreign currency translation gains and losses have so far been immaterial. However, future fluctuations in exchange rates between the U.S. Dollar and foreign currencies may materially adversely affect our business, results of operations and financial condition, particularly our operating margins. We cannot accurately predict the impact of future exchange rate fluctuations on our

results of operations. To date, we have not hedged the risks associated with these fluctuations. Although we may do so in the future, we cannot be sure that any hedging techniques we may implement

will be successful or that our business, results of operations, financial condition and cash flows will not be materially adversely affected by exchange rate fluctuations.

Possible Consequences of Euro Conversion

On January 1, 1999, eleven of the fifteen member countries of the European Union set fixed conversion rates between their existing sovereign currencies and the euro and adopted the euro as their legal currency. Our task force is currently assessing the impact of these events on our company. In addition to tax and accounting issues, the task force is considering:

   . the technical challenges of adapting our systems to accommodate euro-
     denominated transactions;

   . the competitive impact of cross-border price transparency, which may make
     it more difficult for businesses to charge different prices for the same
     products in different countries;

   . the impact on currency exchange costs and currency exchange rate risk; and

   . the impact on existing contracts.

At this early stage, we cannot yet predict the consequences of euro conversion for our company.

Risk of Software Defects; Potential Product Liability for Software Defects

Software products as complex as ours may contain errors or defects, especially when first or subsequent versions are released. Although we test our products extensively, we have in the past discovered software errors in certain of our new products after their introduction. While we have not experienced material adverse effects from any such errors to date, we cannot be certain that, despite testing by us and by our current and potential customers, errors will not be found in new products or releases after commercial shipments begin. This could result in lost revenue or delays in market acceptance, which could have a material adverse effect upon our business, operating results and financial condition.

Our license agreements with customers typically contain provisions designed to limit our exposure to product liability claims. It is possible, however, that these limitation of liability provisions may not be effective under the laws of certain domestic or international jurisdictions. Although there have been no product liability claims against us to date, our license and support of products may involve the risk of these claims. A successful product liability claim against us could have a material adverse effect on our business, operating results and financial condition.

Year 2000 Issues; Potential Impact on Customers

Many currently installed computer systems and software products are coded to accept only two-digit entries in the date code field. These date code fields will need to accept four-digit entries in order for 20th century dates to be distinguished from 21st century dates. As a result, before the end of this year, computer systems and software used by many companies may need to be upgraded to comply with these "Year 2000" requirements.

We have developed and largely implemented a Year 2000 readiness plan for the current versions of most of our products. Accordingly, we believe that the current versions of most of our products are Year 2000 compliant when configured and used properly, provided that the underlying operating system of the host machine and any other software used with or in the host machine or our products are also Year 2000 compliant.

In addition, we plan to test our own material internal information technology, or IT, systems (including both our own software products and third-party software and hardware technology) and our non-IT systems (such as our security system, building equipment, and embedded microcontrollers) for Year 2000

compliance beginning in the first quarter of 1999. We intend to make any required changes in the second and third quarters of 1999 and to conduct additional testing in the fourth quarter of 1999. To the extent that we are not able to test technology provided by third-party vendors, we are asking them to assure us that their systems are Year 2000 compliant.

Although we are not currently aware of any material operational issues or costs associated with preparing our material internal IT and non-IT systems for the Year 2000, we may experience material unanticipated problems and costs

caused by undetected errors or defects in the technology used in these systems. While we cannot be sure that all our non-material systems will be Year 2000 compliant by 2000, we believe that failure of such systems will not have a material adverse affect on our business, financial condition or results of operations. We are currently developing a contingency plan to provide for the remote possibility that our material systems will not achieve timely Year 2000 compliance.

We have funded most of our past Year 2000 compliance activities from cash flows and have not allocated additional funds to making our products or internal systems Year 2000 compliant. During 1999, we plan to spend approximately $100,000 on preparing our internal systems for the Year 2000. We do not expect to receive much outside assistance in completing our internal Year 2000 effort.

Apart from current versions of our products and our internal systems, we have identified four potential Year 2000 problem areas.

First, we have not yet determined whether certain third-party software incorporated in one of our products is Year 2000 compliant. Although we are not currently aware of any material Year 2000 issues with these third-party software products, undetected errors or defects, if they exist, may cause material unanticipated problems and costs.

Second, some of our customers may be using a version of our software that is not Year 2000 compliant. While we have tried to make sure that all our customers are using Year 2000 compliant versions of our software, we cannot be certain that they have installed these versions.

Third, not all platforms or versions of the operating systems that our products currently support are Year 2000 compliant.

Fourth, certain customers have elected to operate systems in a two-digit year date environment, which is not Year 2000 compliant.

We do not currently have much information on the Year 2000 compliance status of our customers. As is the case with other similarly situated software companies, if our current or future customers do not become Year 2000 compliant, or if they divert technology expenditures (especially technology expenditures that were reserved for enterprise decision support software) to address Year 2000 compliance problems, our business, results of operations, financial condition or cash flows could be materially adversely affected.

Since we are in the business of selling software, our risk of lawsuits relating to Year 2000 issues with our products is likely to be greater than that of companies in some other industries. Because computer systems may incorporate components from different manufacturers, it may be difficult to determine which component in a computer system may cause a Year 2000 problem.

As a result, we may be subjected to Year 2000-related lawsuits whether or not our products and services are Year 2000 compliant. We cannot be certain at this time what the outcomes or impact of any such lawsuits may be.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to the impact of interest rate changes and foreign currency fluctuations.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relate primarily
to our short-term investments, which generally have maturities of three months
or less. We do not use derivative financial instruments for speculative or
trading purposes. We invest our excess cash in short-term, fixed income
financial instruments with an investment strategy to buy and hold to maturity.
These fixed rate investments are subject to interest rate risk and may fall in
value if market interest rates increase. If market interest rates were to
increase immediately and uniformly by 10 percent from the levels at December 31,
1998, the fair value of the portfolio would decline by an immaterial amount. We
have the ability to hold our

fixed income investments until maturity, and therefore we do not expect our
operating results or cash flows to be materially affected by a sudden change in
market interest rates on our investment portfolio.

Foreign Currency Risk

     We face exposure to adverse movements in foreign currency exchange rates.
Our international revenues and expenses are denominated in foreign currencies,
principally the British Pound Sterling and the German Deutsche Mark. The
functional currency of each of our foreign subsidiaries is the local currency.
Our international business is subject to risks typical of an international
business, including, but not limited to differing tax structures, other
regulations and restrictions, and foreign exchange rate volatility. Based on
our overall currency rate exposure at December 31, 1998, a 10% change in foreign
exchange rates would have had an immaterial effect on our financial position,
results of operations and cash flows. The introduction of the Euro as a common
currency for members of the European Monetary Union is scheduled to take place
in our fiscal year 1999. We have not determined what impact, if any, the Euro
will have on our foreign exchange exposure. To date, we have not hedged the
risks associated with foreign exchange exposure. Although we may do so in the
future, we cannot be sure that any hedging techniques we may implement will be
successful or that our business, results of operations, financial condition and
cash flows will not be materially adversely affected by exchange rate
fluctuations. To date, our foreign currency gains and losses have been
immaterial.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

  Our consolidated financial statements, together with related notes and the
report of PricewaterhouseCoopers LLP, the Company's independent accountants, are
set forth on the pages indicated in Item 14.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND
FINANCIAL DISCLOSURE

  Not applicable.

                              PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

  The information with respect to directors and executive officers required by
this Item 10 is incorporated herein by reference to the information set forth
under the caption "Directors and Executive Officers of the Company" in our Proxy
Statement for the 1999 Annual Meeting of Stockholders to be held May 21, 1999
(the "1999 Proxy Statement"), which is expected to be filed with the Commission
within 120 days after the close of our fiscal year. Information relating to
certain filings on Forms 3, 4, and 5 of the Company is contained in the 1999
Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting
Compliance".

ITEM 11. EXECUTIVE COMPENSATION

  The information required by this Item 11 is incorporated herein by reference
to the information set forth under the caption "Executive Compensation" in the
1999 Proxy Statement. The sections entitled "Compensation Committee Report on
Executive Compensation" and "Comparative Stock Performance Graph" in the 1999

Proxy Statement are not incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

   The information required by this Item 12 is incorporated herein by reference
to the information set forth under the caption "Security Ownership of Certain
Beneficial Owners and Management" in the 1999 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

   The information required by this Item 13 is incorporated herein by reference
to the information set forth under the caption "Certain Relationships and
Related Transactions" in the 1999 Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this Report:

1. Consolidated Financial Statements

                                                                       Page
                                                                       ----
     Report of Independent Accountants...................................
     Consolidated Financial Statements:
        Balance Sheets..
        Statements of Operations and Comprehensive Income................
        Statements of Stockholders' Equity (deficit).....................
        Statements of Cash Flows...
     Notes to Consolidated Financial Statements.........................

2. Consolidated Financial Statement Schedule

     Schedule II - Valuation and Qualifying Accounts....................

3. Exhibits

                          INDEX TO EXHIBITS

Exhibit
Number   Description   Page
- -------   -----------   ----

  3.1   Certificate of Incorporation, as amended, of the Company.*
  3.2   Bylaws of the Company.*
  4.1   Form of Certificate of Class A Common Stock of the Company.*
 10.1   1996 Stock Plan (as amended) of the Company.**
 10.2   1997 Stock Option Plan for French Employees.***
 10.3   1997 Director Option Plan of the Company.****
 10.4   1998 Employee Stock Purchase Plan of the Company.
 10.5   Business Loan/Security Agreement between the Company and NationsBank,
          N.A. dated December 10, 1996.*****
 10.6   Modification of Business Loan/Security Agreement between the Company
          and NationsBank, N.A. dated November 20, 1997.******
 10.7   Modification of Business Loan/Security Agreement between the Company
          and NationsBank, N.A. dated September 25, 1998.*******
 10.8   Commitment Letter to the Company from NationsBank, N.A. dated
          January 29, 1999.********
 21.1   Subsidiaries of the Company.
 23.1   Consent of PricewaterhouseCoopers LLP.
 27.1   Financial Data Schedule.

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(b) Reports on Form 8-K

    No reports on Form 8-K were filed during the last quarter of the period
    covered by the Annual Report on Form 10-K.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
MicroStrategy Incorporated:

        In our opinion, the accompanying consolidated balance sheets and the
related consolidated statements of operations and comprehensive income,
stockholders' equity (deficit) and cash flows present fairly, in all material
respects, the financial position of MicroStrategy Incorporated and its
subsidiaries (the Company) as of December 31, 1998 and 1997, and the results of
their operations and their cash flows for each of the three years in the period
ended December 31, 1998, in conformity with generally accepted accounting
principles. These financial statements are the responsibility of the Company's
management; our responsibility is to express an opinion on these financial
statements based on our audits. We conducted our audits of these statements in
accordance with generally accepted auditing standards that require that we plan
and perform the audit to obtain reasonable assurance about whether the financial
statements are free of material misstatement. An audit includes examining, on a
test basis, evidence supporting the amounts and disclosures in the financial
statements, assessing the accounting principles used and significant estimates
made by management, and evaluating the overall financial statement presentation.
We believe that our audits provide a reasonable basis for the opinion expressed
above.

                                             PRICEWATERHOUSECOOPERS LLP

McLean, Virginia
February 16, 1999

                        MICROSTRATEGY INCORPORATED

                      CONSOLIDATED BALANCE SHEETS

              (in thousands, except share and per share data)

	1998	1997

ASSETS

Current assets:

	1998	1997
Cash and cash equivalents...	$27,491	$ 3,506
Accounts receivable, net..	33,054	16,085
Prepaid expenses and other current assets................................	2,198	1,435
Deferred tax assets, net..	716	--
Total current assets..	63,459	21,026
Property and equipment, net...	13,773	6,891
Long-term accounts receivable...	2,700	--
Deposits and other assets...	2,757	2,148
Total assets..	$82,689	$30,065

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:

	1998	1997
Accounts payable and accrued expenses.....................................	$11,904	$ 9,636
Accrued compensation and employee benefits................................	7,356	3,633
Deferred revenue...	10,732	8,340
Line-of-credit...	--	4,508
Notes payable, current portion...	--	900
Dividend notes payable...	5,000	--
Total current liabilities...	34,992	27,017
Notes payable, long-term portion...	--	2,428
Deferred revenue...	746	1,047
Deferred tax liabilities, net..	671	--
Total liabilities..	36,409	30,492

Commitments and contingencies

Stockholders' equity (deficit):

	1998	1997
Preferred stock, par value $0.001 per share, 5,000,000 shares authorized, no shares issued or outstanding..	--	--
Common stock, par value $0.001 per share, 50,000,000 shares authorized; no shares issued or outstanding at December 31, 1998; 29,493,873 shares issued and outstanding at December 31, 1997......................	--	29
Class A Common Stock, par value $0.001 per share, 100,000,000 shares authorized, 5,052,110 shares issued and outstanding at December 31, 1998; no shares issued or outstanding at December 31, 1997..............	5	--
Class B Common Stock, par value $0.001 per share, 100,000,000 shares authorized, 30,633,114 shares issued and outstanding at December 31, 1998; no shares issued or outstanding at December 31, 1997..............	31	--
Additional paid-in capital..	42,219	20
Accumulated other comprehensive income...................................	894	158
Accumulated earnings (deficit)...	5,229	(634)
Deferred compensation..	(2,098)	--
Total stockholders' equity (deficit)..................................	46,280	(427)
Total liabilities and stockholders' equity (deficit)....................	$82,689	$30,065

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

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MICROSTRATEGY INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands, except share and per share data)

	Years ended December 31,		
	1998	1997	1996

Revenues:

	1998	1997	1996
Product licenses...	$ 72,721	$ 36,601	$ 15,873
Product support..	33,709	16,956	6,730
Total revenues...	106,430	53,557	22,603

Cost of revenues:

	1998	1997	1996
Product licenses...	2,246	1,641	1,020
Product support..	17,535	9,475	4,237
Total cost of revenues...................................	19,781	11,116	5,257
Gross margin...	86,649	42,441	17,346

Operating expenses:

	1998	1997	1996
Sales and marketing......................................	53,408	30,468	13,054

Research and development.................................	12,106	5,049	2,840
General and administrative...............................	11,809	6,552	3,742
	-----------	-----------	-----------
Total operating expenses.................................	77,323	42,069	19,636
	-----------	-----------	-----------
Income (loss) from operations............................	9,326	372	(2,290)
Interest income..	1,028	94	22
Interest expense...	(720)	(333)	(127)
Other income (expense), net..............................	(14)	(12)	20
	-----------	-----------	-----------
Income (loss) before income taxes........................	9,620	121	(2,375)
	-----------	-----------	-----------
Provision for income taxes...............................	(3,442)	--	--
	-----------	-----------	-----------
Net income (loss)..	$ 6,178	$ 121	$ (2,375)
	===========	===========	===========
Other comprehensive income:			
Foreign currency translation adjustment..................	736	158	--
	-----------	-----------	-----------
Comprehensive income (loss)..............................	$ 6,914	$ 279	$ (2,375)
	===========	===========	===========
Basic net income (loss) per share........................	$ 0.18	$ 0.00	$ (0.08)
	===========	===========	===========
Weighted average shares used in computing basic net income (loss) per share...................................	33,492,869	29,493,873	29,493,873
	===========	===========	===========
Diluted net income (loss) per share......................	$ 0.16	$ 0.00	$ (0.08)
	===========	===========	===========
Weighted average shares used in computing diluted net income (loss) per share...................................	38,601,389	32,362,277	29,493,873
	===========	===========	===========
Pro forma information:			
Pro forma net income (loss)..............................	$ 5,971	$ (368)	
	===========	===========	
Pro forma basic net income (loss) per share..............	$ 0.18	$ (0.01)	
	===========	===========	
Pro forma diluted net income (loss) per share............	$ 0.15	$ (0.01)	
	===========	===========	

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

MICROSTRATEGY INCORPORATED

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(in thousands, except share data)

	Common Stock		Class A Common Stock		Class B Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at December 31, 1995........	32,306,404	$ 32	---	$	---	$
Issuance of common stock in exchange for notes receivable from stockholders.......................	147,469	---	---	---	---	---
Proceeds from payments on notes receivable...........................	---	---	---	---	---	---
Retirement of treasury stock........	(1,011,200)	(1)	---	---	---	---
Net income..........................	---	---	---	---	---	---
	-----------	-----	-----------	-------	------------	------
Balance at December 31, 1996........	31,442,673	31	---	---	---	---
	-----------	-----	-----------	-------	------------	------
Proceeds from payments on notes receivable...........................	---	---	---	---	---	---
Retirement of treasury stock........	(1,948,800)	(2)	---	---	---	---
Translation adjustment..............	---	---	---	---	---	---
Net income..........................	---	---	---	---	---	---
	-----------	-----	-----------	-------	------------	------
Balance at December 31, 1997........	29,493,873	29	---	---	---	---
	-----------	-----	-----------	-------	------------	------
Issuance of common stock in exchange for minority interest of Company's foreign subsidiaries.....	1,401,641	2	---	---	---	---
Stock Options issued below fair value...............................	---	---	---	---	---	---
Declaration of dividend.............	---	---	---	---	---	---
Issuance of Class A common shares in connection with initial public offering, net of offering costs....	---	---	4,440,000	5	---	---
Deferred compensation resulting from the issuance of stock options below fair value....................	---	---	---	---	---	---
S-Corporation to C-Corporation						

conversion........................	---	---	---	---	---	---
Exercise of stock options...........	---	---	349,710	---	---	---
Conversion of common stock to Class B common stock....................	(30,895,514)	(31)	---	---	30,895,514	31
Conversion of Class B common stock to Class A.........................	---	---	262,400	---	(262,400)	---
Issuance of warrants to purchase Class A common stock...............	---	---	---	---	---	---
Translation adjustment..............	---	---	---	---	---	---
Net income.........................	---	---	---	---	---	---
Balance at December 31, 1998	---	$ ---	5,052,110	$ 5	30,633,114	$ 31

	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Earnings (Deficit)	Deferred Compensation	Notes Receivable from Stockholders	Treasury Stock Shares	Treasury Stock Amount	Total
Balance at December 31, 1995........	$ 197	$ ---	$ 1,720	$ ---	$ (107)	2,960,000	$ (296)	$ 1,546
Issuance of common stock in exchange for notes receivable from stockholders.......................	16	---	---	---	(16)	---	---	---
Proceeds from payments on notes receivable.........................	---	---	---	---	36	---	---	36
Retirement of treasury stock........	---	---	(100)	---	---	(1,011,200)	101	---
Net income.........................	---	---	(2,375)	---	---	---	---	(2,375)
Balance at December 31, 1996........	213	---	(755)	---	(87)	1,948,800	(195)	(793)
Proceeds from payments on notes receivable.........................	---	---	---	---	87	---	---	87
Retirement of treasury stock........	(193)	---	---	---	---	(1,948,800)	195	---
Translation adjustment..............	---	158	---	---	---	---	---	158
Net income.........................	---	---	121	---	---	---	---	121
Balance at December 31, 1997........	20	158	(634)	---	---	---	---	(427)
Issuance of common stock in exchange for minority interest of Company's foreign subsidiaries.....	1,066	---	---	---	---	---	---	1,068
Stock Options issued below fair value..............................	1,350	---	---	(1,350)	---	---	---	---
Declaration of dividend.............	(10,000)	---	---	---	---	---	---	(10,000)
Issuance of Class A common shares in connection with initial public offering, net of offering costs....	48,184	---	---	---	---	---	---	48,189
Deferred compensation resulting from the issuance of stock options below fair value...................	---	---	---	186	---	---	---	186
S-Corporation to C-Corporation conversion.........................	315	---	(315)	---	---	---	---	---
Exercise of stock options...........	350	---	---	---	---	---	---	350
Conversion of common stock to Class B common stock.....................	---	---	---	---	---	---	---	---
Conversion of Class B common stock to Class A.........................	---	---	---	---	---	---	---	---
Issuance of warrants to purchase Class A common stock...............	934	---	---	(934)	---	---	---	---
Translation adjustment..............	---	736	---	---	---	---	---	736
Net income.........................	---	---	6,178	---	---	---	---	6,178
Balance at December 31, 1998	$ 42,219	$ 894	$ 5,229	$ (2,098)	$ ---	---	$ ---	$ 46,280

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

MICROSTRATEGY INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years ended December 31,		
	1998	1997	1996
Operating activities:			
Net income (loss)..	$ 6,178	$ 121	$(2,375)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization..	3,250	1,243	306
Provision for doubtful accounts, net of write-offs and recoveries................	815	312	381
Loss on sale of property and equipment...	--	--	17
Net change in deferred taxes...	(45)	--	--
Other..	163	--	--
Changes in operating assets and liabilities, net of effect of foreign exchange rate changes:			
Accounts receivable..	(17,525)	(8,235)	(4,859)
Prepaid expenses and other current assets..	(711)	(1,051)	(230)
Accounts payable and accrued expenses, compensation and benefits.................	5,948	8,951	3,780
Deferred revenue...	2,267	3,512	3,985

Deposits and other assets..	(188)	102	(58)
Long-term accounts receivable...	(2,700)	--	--
	--------	-------	-------
Net cash (used in) provided by operating activities.......................	(2,548)	4,955	947
	--------	-------	-------
Investing activities:			
Acquisition of property and equipment..	(9,295)	(5,954)	(1,680)
Increase in capitalized software...	--	(1,928)	--
	--------	-------	-------
Net cash used in investing activities.....................................	(9,295)	(7,882)	(1,680)
	--------	-------	-------
Financing activities:			
Proceeds from sale of Class A common stock and exercise of stock options,			
net of offering costs...	48,539	--	--
Borrowings on short-term line of credit, net.................................	--	1,750	2,008
Repayments on short-term line of credit, net.................................	(4,508)	--	--
Repayments of dividend notes payable...	(5,000)	--	--
Proceeds from issuance of note payable.......................................	862	3,264	306
Principal payments on notes payable..	(4,190)	(521)	(574)
Proceeds from payments on stockholders' notes receivable.....................	--	87	36
	--------	-------	-------
Net cash provided by financing activities.................................	35,703	4,580	1,776
	--------	-------	-------
Effect of foreign exchange rate changes on cash............................	125	167	--
	--------	-------	-------
Net increase in cash and cash equivalents..	23,985	1,820	1,043
Cash and cash equivalents, beginning of year.....................................	3,506	1,686	643
	--------	-------	-------
Cash and cash equivalents, end of period...	$ 27,491	$ 3,506	$ 1,686
	========	======	======
Supplemental disclosure of noncash investing and financing activities:			
Issuance of notes receivable in exchange for common stock......................	$ --	$ --	$ 16
	========	======	======
Retirement of treasury stock...	$ --	$ 195	$ 101
	========	======	======
Issuance of common stock in exchange for minority interest of Company's			
foreign subsidiaries..	$ 1,068	$ --	$ -
	========	======	======
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest...	$ 714	$ 290	$ 112
	========	======	======
Cash paid during the year for income taxes.....................................	$ 2,996	$ --	$ -
	========	======	======

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

MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

(1) Organization and Summary of Significant Accounting Policies

 (a) Organization

  MicroStrategy Incorporated (the "Company") is a leading worldwide provider
of enterprise Decision Support Systems (DSS) software applications and related
services. The Company's DSS Suite enables both active and passive delivery of
information from large-scale databases, providing Global 2000 enterprise user
communities with timely answers to mission-critical questions. MicroStrategy's
decision support platform enables users to query and analyze the most detailed,
transaction-level databases, turning data into business intelligence. In
addition to supporting internal enterprise users, MicroStrategy's products
extend DSS beyond corporate boundaries to customers, partners, and supply chain
constituencies through a broad range of pull and push technology such as the
Internet, e-mail, telephones, pagers and other wireless communications devices.

 (b) Basis of Presentation

  The accompanying consolidated financial statements include the accounts of the
Company and its subsidiaries. All significant intercompany accounts and
transactions have been eliminated in consolidation.

Prior to January 1, 1998, the Company owned a 79% interest of its foreign subsidiaries, a 17% interest of the foreign subsidiaries was owned by the Company's majority stockholder and the remaining 4% interest was owned by a minority stockholder. Due to the fact that 96% interest of the foreign subsidiaries were under common control and the remaining minority shareholder's interest was immaterial, the Company has consolidated 100% of the foreign subsidiaries since inception and has not reflected the minority interest in its consolidated balance sheets. Effective January 1, 1998, the Company acquired the remaining 21% minority interest of its foreign subsidiaries through the issuance of 1,401,641 shares of Class B Common Stock.

(c) Use of Estimates

The preparation of the consolidated financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include various short-term money market instruments.

(e) Software Development Costs

In accordance with Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed," software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. The Company defines the establishment of technological feasibility as the completion of all planning, designing, coding and testing activities that are necessary to establish products that meet design specifications including functions, features and technical performance requirements. Under the Company's definition, establishing technological feasibility is considered complete only after the majority of customer testing and customer feedback has been incorporated into product functionality. Software development costs capitalized include direct labor costs and fringe labor overhead costs attributed to programmers, software engineers, quality control and field certifiers working on products after they reach technological feasibility but before they are generally available to customers for sale. Capitalized costs are amortized over the estimated product life using the greater of the straight-line method or the ratio of current product revenues to total projected future revenues. Software development costs net of accumulated amortization are $1,247 and $1,831 at December 31, 1998 and 1997, respectively, and are included in deposits

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MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(In thousands, except share and per share data)

and other assets on the balance sheet. Amortization expense related to software development costs was $584 and $97 for the years ended December 31, 1998 and 1997, respectively. Prior to the year ended December 31, 1997 and during 1998, the establishment of technological feasibility of the Company's products and general release of such software had substantially coincided. As a result, software development costs qualifying for capitalization were insignificant and, therefore, the Company has only capitalized software development costs during 1997.

(f) Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to ten years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the leases. Depreciation and amortization expense related to property and equipment was $2,585, $1,141 and $306 for the years ended December 31, 1998,

1997 and 1996, respectively.

 (g) Revenue Recognition

  Prior to January 1, 1998 the Company recognized revenue in accordance with the American Institute of Certified Public Accountants' (AICPA) Statement of Position (SOP) 91-1, "Software Revenue Recognition." Subsequent to December 31, 1997, the Company began recognizing revenue in accordance with SOP 97-2, "Software Revenue Recognition." SOP 97-2 was amended on March 31, 1998 by SOP 98-4 "Deferral of the effective date of a provision of SOP 97-2." In December 1998, the AICPA issued SOP 98-9 "Modification of SOP 97-2, Software Revenue Recognition," which amends SOP 98-4, and is effective after December 31, 1998. Management has assessed these new statements and believes that their adoption will not have a material effect on the timing of the Company's revenue recognition or cause changes to its revenue recognition policies. Revenue from product licensing arrangements is generally recognized after execution of a licensing agreement and shipment of the product, provided that no significant Company obligations remain and the resulting receivable is deemed collectible by management. In addition, the Company recognizes revenue from sales to value-added resellers (VARs) and original equipment manufacturers (OEMs) at the time of product shipment, subject to evaluation of possible product returns or exchanges. Historically, the Company has not experienced any returns or exchanges of its products from direct sale customers, VARs or OEMs. Services revenue, which includes training and consulting, is recognized at the time the service is performed. The Company defers and recognizes maintenance revenue ratably over the terms of the contract period, ranging from 12 to 36 months.

 (h) Income Taxes

  Prior to the Initial Public Offering, the Company had elected to be treated for federal and state income tax purposes as a Subchapter S corporation. Under Subchapter S, the taxable income or loss is reported by the stockholders and, accordingly, no federal or state income taxes had been provided in the financial statements prior to consummation of the Initial Public Offering.

  In connection with the Initial Public Offering, the Company converted to a Subchapter C corporation and, accordingly, is no longer treated as a Subchapter S corporation for tax purposes. The Company is now subject to federal and state income taxes and recognizes deferred taxes in accordance with SFAS No. 109, "Accounting For Income Taxes," which the Company adopted upon consummation of the Initial Public Offering. This statement provides for a liability approach under which deferred income taxes are provided based upon enacted tax laws and rates applicable to the periods in which the taxes become payable. The adoption of SFAS No. 109 did not have a material impact on the Company's operating results. As of December 31, 1998, the Company's deferred tax assets of approximately $5,835 consist primarily of net operating loss carryforwards related to foreign operations. The Company recorded a valuation allowance on the deferred tax assets relating to certain foreign operations where there is uncertainty as to whether the deferred tax asset is realizable.

  The consolidated statement of operations includes pro forma information to reflect income taxes as if the Company had been a Subchapter C corporation for the years ended December 31, 1998 and 1997.

                        MICROSTRATEGY INCORPORATED

              NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

                  (In thousands, except share and per share data)

 (i) Basic and Diluted Net Income (Loss) Per Share

  Basic net income (loss) per share is computed on the basis of the weighted average number of common shares outstanding. Diluted net income (loss) per share is computed on the basis of the weighted average number of common shares outstanding, assuming conversion of dilutive common stock equivalent shares from common stock options and warrants.

 (j) Foreign Currency Translation

  The assets and liabilities of non-U.S. operations are translated into U.S.

dollars at exchange rates in effect as of each balance sheet date. Revenue and
expense accounts of these operations are translated at average exchange rates
prevailing during the period the transactions occur. Accordingly, translation
gains and losses are included as a component of stockholders' equity. Foreign
currency transaction gains and losses are included in determining net income.

  (k) Concentrations of Credit Risk

  Financial instruments that potentially subject the Company to concentrations
of credit risk consist primarily of cash, cash equivalents and accounts
receivable. The Company sells products and services to various companies across
several industries throughout the world in the ordinary course of business. The
Company routinely assesses the financial strength of its customers and maintains
allowances for anticipated losses.

  For the years ended December 31, 1998, 1997, and 1996, no one customer
accounted for 10% or more of total revenues nor accounts receivable.

  (l) Fair Value of Financial Instruments

  The Company's financial instruments, which consist of cash, cash equivalents,
accounts receivable, accounts payable, line of credit and notes payable,
approximate fair value. The carrying amounts of the line of credit and notes
payable approximate fair value as these financial instruments contain variable
interest rates that reprice frequently.

  (m) Stock-based Compensation

  The Company accounts for stock-based compensation under SFAS No. 123,
"Accounting for Stock-Based Compensation." As permitted by SFAS No. 123, the
Company has elected to continue following the provisions of Accounting
Principles Board Opinion No. 25 (APB No. 25), "Accounting for Stock Issued to
Employees," and to adopt the disclosure only provisions of SFAS No. 123.

  (n) Year 2000 Costs

 The Company expenses costs for Year 2000 issues as incurred.

  (o) Purchase of Minority Interest in Foreign Subsidiaries and Related
Intangibles

  Effective January 1, 1998, the Company issued a total of 1,401,641 shares of
Class B Common Stock to certain existing stockholders in exchange for their
approximate 21% minority interest in certain of the Company's foreign
subsidiaries. The transaction and the valuation of the percentage interests held
by each of the minority interest stockholders for purposes of determining the
number of shares of Common Stock to be issued to each of them were reviewed and
approved by the disinterested members of the Board of Directors. The Company
accounted for the transaction under the purchase method of accounting. The
1,134,662 shares issued to the majority stockholder of the Company in exchange
for his shares in the foreign subsidiaries' minority interest (representing 17%
interest of the foreign subsidiaries) was an exchange between entities under
common control and was therefore accounted for at historical cost. The
historical cost for the majority stockholder's investment in the minority
interest was approximately $58. The shares issued to the other minority interest
stockholder (representing 4% interest of the foreign subsidiaries) were recorded
at fair value. Accordingly, the Company recorded $1,068

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for acquired intangible assets, which is included in deposits and other assets
in the balance sheet representing the excess of the fair market value of 266,979
of the shares issued in exchange for the non controlling interests shares in the
foreign subsidiaries. The Company has allocated the following amounts to the
identifiable intangible assets and is amortizing those assets on a straight-line
basis over the following estimated useful lives:

        Distribution channels........................... $ 478 15 years
        Trade name......................................   239 20 years
        Customer list...................................   267 10 years
        Assembled workforce.............................   66 10 years
        Goodwill..   18 5 years

                                                          $1,068

During the year ended December 31, 1998, the Company recorded amortization expense of $81 relating to intangible assets.

(p) Recent Accounting Standards

As of December 31, 1998, the Company has adopted SFAS No. 130, "Reporting Comprehensive Income," which requires additional disclosures with respect to certain changes in assets and liabilities that previously were not required to be reported as results of operations for the period. In addition, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" was issued, which establishes standards for the manner in which public companies report information about operating segments, products and services, geographic areas and major customers in annual and interim financial statements. The Company does not expect SFAS No. 131 to materially impact its financial statement disclosures.

(2) Initial Public Offering

On June 16, 1998, the Company issued 4.6 million shares of Class A Common Stock in an initial public offering raising approximately $48.1 million (the "Initial Public Offering"). The holders of Class A Common Stock generally have rights identical to those of holders of Class B Common Stock, except that holders of Class A Common Stock are entitled to one vote per share while holders of Class B Common Stock are entitled to ten votes per share on all matters submitted to a vote of stockholders.

(3) Accounts Receivable

Accounts receivable, net of allowances, consist of the following:

	December 31,	
	1998	1997
Billed...	$27,976	$16,621
Unbilled...	6,663	234
Less allowance for doubtful accounts..............	(1,585)	(770)
	$33,054	$16,085

(4) Property and Equipment

Property and equipment consists of the following:

	December 31,	
	1998	1997
Computer equipment and software..................	$14,967	$ 6,703
Furniture and equipment..........................	2,850	1,512
Leasehold improvements...........................	697	292
Less: accumulated depreciation and amortization..	(4,741)	(1,616)
	$13,773	$ 6,891

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MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(In thousands, except share and per share data)

(5) Bank Borrowings

In December 1996, the Company entered into a loan agreement with a commercial bank (the "Business Loan"). The Business Loan, as amended in September 1998, provides for a $5.0 million revolving line of credit for general working capital purposes. Borrowings under the Business Loan may not exceed 80% of eligible

accounts receivable for the revolving working capital line of credit. The
borrowings bear interest at the lender's prime rate or LIBOR plus 1.50% for the
revolving line of credit. Borrowings under the Business Loan are collateralized
by substantially all of the Company's assets. In July 1998, the Company repaid
all net borrowings under the Business Loan. As of December 31, 1998, no amounts
were outstanding under the Business Loan.

   The Business Loan requires the Company to maintain certain financial ratios
and to comply with certain other covenants. As of December 31, 1998, the
Company is in compliance with these covenants.

   Subsequent to year end, the Company expanded its line of credit to $25.0
million. Borrowings under the expanded revolving line of credit will bear
interest at a variable rate equal to LIBOR plus 1.0% to 1.75%, depending upon
the ratio of funded debt to earnings.

(6) Notes Payable

   Notes payable consist of the following:

	December 31,	
	1998	1997
Notes payable to financial institution with interest rates varying from 8.8% to 9.4%, at December 31, 1997, maturities through December 31, 2001, payable in monthly installments and collateralized by the related equipment......	$ --	$ 3,328
Less: current portion	--	(900)
Notes payable, long-term portion.............................	$ --	$ 2,428

(7) Income Taxes

   Prior to the Initial Public Offering, the Company was an S corporation, and
accordingly, the Company was not liable for corporate income taxes. However,
effective June 12, 1998, the Company is a tax-paying entity. The tax provision
consists of the following for the years ended December 31:

	1998	Pro forma 1997
		(unaudited)
Current:		
Federal.....................................	$ 2,930	$ (148)
State.......................................	557	71
Foreign.....................................	--	124
	3,487	47
Deferred:		
Federal.....................................	38	794
State.......................................	140	170
Foreign.....................................	(1,654)	(1,443)
	(1,476)	(479)
Increase in valuation allowance...............	1,431	921
Total provision...............................	$ 3,442	$ 489

MICROSTRATEGY INCORPORATED

Pre-tax income for the year ended December 31, 1998 was $9,620. The provision for income taxes differs from the amount computed by applying the federal statutory income tax rate to the Company's income before taxes as follows for the years ended December 31:

	1998	Pro forma 1997
		(unaudited)
Income tax expense at federal statutory rate....................	$3,271	$ 41
Goodwill amortization and other non-deductible expenses.........	147	--
Foreign sales corporation.......................................	(203)	--
State income tax, net of federal tax benefit...................	367	5
S Corporation income...	(240)	--
Loss on foreign subsidiary.....................................	(231)	--
Tax credits..	(350)	(480)
Utilization of foreign net operating losses....................	(263)	--
Change in valuation allowance..................................	1,431	921
International rate differential................................	(290)	2
Other..	(197)	--
	$3,442	$ 489

Significant components of the Company's deferred tax assets and liabilities are as follows as of December 31:

	1998	Pro forma 1997
		(unaudited)
Allowances and reserves........................	$ 1,561	$ 287
Accrued compensation...........................	848	384
Foreign net operating losses..................	3,162	1,801
Tax credits...................................	264	--
Deferred revenue..............................	--	595
	5,835	3,067
Valuation allowance...........................	(2,324)	(1,801)
Net deferred tax assets.......................	3,511	1,266
Deferred tax liabilities:		
Prepaid assets................................	489	447
Depreciation..................................	424	558
Capitalized software..........................	1,071	703
Cash to accrual conversion....................	1,482	--
Total deferred tax liabilities...............	3,466	1,708
Total net deferred tax asset (liability).......	$ 45	$ (442)

The Company recorded a net $1,431 increase in the valuation allowance for the year ended December 31, 1998 related to foreign net operating losses which in the Company's opinion, may not be realizable. The Company has foreign net operating loss carryforwards of $7,942 of which $2,897 will expire in 2002 and 2003. The remaining foreign net operating losses of $5,045 carryforward indefinitely.

MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(In thousands, except share and per share data)

For the year ended December 31, 1998 the Company recorded a total tax provision of $3,442. Upon the revocation of the Company's federal S corporation election in June of 1998, the Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." As of December 31, 1998 management has concluded that no valuation allowance is required on the domestic deferred tax assets and certain of its foreign deferred tax assets based on its assessment that current and expected future levels of taxable income are sufficient to realize these deferred tax assets. Had the Company been taxable as a regular C corporation throughout the 1998 tax period, it would have recorded a tax provision of $3,649.

Had the Company been taxable as a regular C corporation as of December 31, 1997, the Company would have recorded a tax provision of $489, a net deferred tax liability of $442 and a valuation allowance of $1,801 primarily against the net operating loss carryforwards generated in certain foreign jurisdictions. As of December 31, 1997 management would have concluded that no valuation allowance was required on the domestic deferred tax assets and certain of its foreign deferred tax assets based on its assessment that current and expected future levels of taxable income are sufficient to realize these deferred tax assets.

(8) Commitments and Contingencies

 (a) Operating Leases

  The Company leases office space under operating lease agreements expiring at various dates through 2006. In addition to base rent, the Company is responsible for certain taxes, utilities, and maintenance costs. Future minimum lease payments under noncancelable operating leases with a remaining term in excess of one year at December 31, 1998 are as follows:

1999...	$ 5,279
2000...	4,692
2001...	4,343
2002...	4,330
2003...	3,378
Thereafter...................................	$ 6,627

	$28,649
	=======

  Total rental expense for the years ended December 31, 1998, 1997 and 1996 was approximately $3,952, $1,635 and $699, respectively.

 (b) Contingencies

  The Company is involved in proceedings through the normal course of business, however, the ultimate resolution of these proceedings cannot be predicted with certainty. Management believes that any unfavorable outcome related to these proceedings will not have a material effect on the Company's financial position or results of operations.

MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(In thousands, except share and per share data)

(9) Stockholders Equity

 (a) Net Income (Loss) Per Share

  Reconciliations of the basic net income (loss) per share and diluted net
income (loss) per share computations for the years ended December 31, 1998, 1997
and 1996 are as follows:

	Year ended December 31,		
	1998	1997	1996
Basic net income (loss) per share:			
Weighted-average common shares outstanding....................	33,492,869	29,493,873	29,493,873
Net income (loss)..	$ 6,178	$ 121	$ (2,375)
Basic net income (loss) per share............................	$ 0.18	$ 0.00	$ (0.08)
Diluted net income (loss) per share:			
Weighted-average common shares outstanding....................	33,492,869	29,493,873	29,493,873
Diluted impact of common shares issuable on exercise of stock options and warrants..	5,108,520	2,868,404	--
Weighted-average common shares outstanding assuming dilution...	38,601,389	32,362,277	29,493,873
Net income (loss)..	$ 6,178	$ 121	$ (2,375)
Diluted net income (loss) per share..........................	$ 0.16	$ 0.00	$ (0.08)

  Common stock equivalents are included in the computation of diluted net income
(loss) per share using the treasury stock method. During 1998 and 1996, stock
options granted by the Company to purchase 956,135 and 1,172,963 common shares,
respectively, were not included in the computation because the effect was anti-
dilutive.

  Immediately prior to the Initial Public Offering, all outstanding shares of
common stock were changed and converted into shares of Class A Common Stock and
exchanged for an identical number of shares of Class B Common Stock.

 (b) Employee and Directors Stock Option Plans

  In February 1996, the Company adopted the 1996 Stock Plan in order to provide
an incentive to eligible employees, consultants and officers of the Company.
Under the 1996 Stock Plan, as amended, 8,000,000 shares of common stock are
reserved, options to purchase 6,169,969 shares have been granted as of December
31, 1998.

  In March 1997, the Company adopted the French Plan, which provides for the
granting of options to employees of MicroStrategy France SARL, the Company's
French subsidiary. A total of 300,000 shares of common stock has been reserved
under the French Plan, options to purchase 111,250 shares have been granted as
of December 31, 1998.

  In September 1997, the Company adopted the 1997 Director Option Plan, which
provides for the grants of nonqualified stock options to non-employee directors
of the Company. A total of 200,000 shares of common stock has been reserved
under the Director Option Plan, options to purchase 145,000 shares have been
granted as of December 31, 1998.

  Shares of Class A Common Stock will be issued upon exercise of any of the
stock options granted under the 1996 Stock Plan, the French Plan and the 1997
Director Option Plan.

  The stock option exercise price of options under the Company's stock option
plans may not be less than the determined fair market value at the date of
grant. Stock options to date generally vest ratably over five years from the
date of grant and expire ten years after grant. Vested stock options are
exercisable at the earliest of (1) the closing of an underwritten public
offering, (2) change in control of the Company or (3) 78 months following the
date of grant of an option.

A summary of the status of the Company's stock option plans as required by SFAS No. 123 is presented below:

	Shares	Option Price Range per Share	Weighted Average Exercise Price
Outstanding at December 31, 1995	--	$ --	$ --
Granted..	2,482,416	0.50 - 1.25	0.84
Exercised..	--	--	--
Surrendered..	(23,000)	0.50 - 1.13	0.55
Outstanding at December 31, 1996..................	2,459,416	0.50 - 1.25	0.84
Granted..	2,660,363	1.50 - 4.00	2.44
Exercised..	--	--	--
Surrendered..	(207,916)	0.50 - 2.50	1.10
Outstanding at December 31, 1997..................	4,911,863	0.50 - 4.00	1.70
Granted..	1,876,690	4.00 - 42.50	14.28
Exercised..	(349,710)	0.50 - 4.00	1.05
Surrendered..	(363,134)	0.50 - 38.25	3.95
Outstanding at December 31, 1998.................	6,075,709	0.50 - 42.50	5.46
Options vested at December 31, 1998..............	1,145,958	$0.50 - 28.19	$ 2.08

	Options Outstanding at December 31, 1998			Options Exercisable at December 31, 1998	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 0.00 - 4.25	4,525,874	7.8	$ 1.86	1,086,828	$ 1.48
4.25 - 8.50	445,200	8.6	5.79	--	--
8.50 - 12.75	529,435	8.0	11.58	54,630	11.83
12.75 - 21.25	61,500	9.5	20.54	--	--
21.25 - 25.50	263,450	9.3	23.62	3,500	25.25
25.50 - 29.75	80,950	9.5	27.90	1,000	28.19
29.75 - 34.00	12,500	9.1	32.54	--	--
34.00 - 38.25	106,050	9.2	36.72	--	--
38.25 - 42.50	50,750	9.5	39.68	--	--
	6,075,709	8.0	$ 5.46	1,145,958	$ 2.08

If compensation expense had been recorded based on the fair value at the grant dates for awards under the Plans, the Company's net income would have been adjusted to the pro forma amounts presented below:

	Year ended December 31,		
	1998	1997	1996
Net income (loss)			
As reported...	$6,178	$ 121	$(2,375)
Pro forma...	$3,204	$ (258)	$(2,467)
Basic net income (loss) per share, as reported.......	$ 0.18	$ 0.00	$ (0.08)
Diluted net income (loss) per share, as reported......	$ 0.16	$ 0.00	$ (0.08)
Pro forma basic net income (loss) per share...........	$ 0.10	$(0.01)	$ (0.08)
Pro forma diluted net income (loss) per share.........	$ 0.08	$(0.01)	$ (0.08)

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for option grants under the Company's stock option plans issued during the years ended December 31, 1998, 1997 and 1996, respectively: volatility factors of 80%, 60% and 70%, weighted-average expected life of 5 years, 2.5 years, and 5 years risk-free interest rates of 5%, 6% and 6%, and no dividend yields. The following assumptions were used for shares issued during 1998 under the Employee Stock Purchase Plan: volatility factor of 80%, weighted-average expected life of 6 months, risk-free interest rate of 5% and no dividend yield. The weighted average fair value of grants made during the years ended December 31, 1998, 1997 and 1996 are $9.52, $1.04 and $0.52, respectively.

During the year ended December 31, 1998, the Company granted options to purchase 1,876,690 shares of common stock, of which options to purchase 535,835 shares of common stock were granted at exercise prices below fair market value. The Company will amortize approximately $1,350 of compensation expense related to these options ratably over the five year vesting period of these options. The Company will record additional compensation expense relating to the options for the years ending December 31, 1999, 2000, 2001, 2002 and 2003 of $270, $270, $270, $270 and $84, respectively. For the year ended December 31, 1998, the Company recorded $186 of compensation expense related to the aforementioned options.

(c) Distribution to S Corporation Stockholders

Prior to the Initial Public Offering, the Company distributed a dividend of $10,000 to the existing stockholders of the S corporation in the form of short-term one-year notes prior to the termination of the Company's S corporation election. The notes issued to the existing stockholders by the Company bear interest at the ''applicable federal rate'' for short-term obligations. The Company plans to repay the notes from cash flows from future operations of the Company in accordance with the terms of the notes. As of December 31, 1998, $5.0 million was outstanding.

(d) Stock Warrants

In December 1998, the Company issued warrants to purchase 50,000 shares of Class A common stock at $23.50 a share. The warrants vest ratably over five years. The Company recorded $933,500 of deferred compensation expense which is included in stockholders equity as of December 31, 1998 which is being amortized ratably over five years. The fair value of the warrants was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumption: volatility factor of 80%, weighted average expected life of 5 years, risk-free interest rate of 5% and no dividend yield.

(10) Employee Benefit Plan

The Company sponsors a plan to provide retirement and incidental benefits for its employees, known as the MicroStrategy 401(k) plan (the ''Plan''). Participants may make voluntary contributions to the Plan of up to 20% of their compensation not to exceed the Federally determined maximum allowable contribution. The Plan permits for discretionary company contributions; however, no contributions were made for the years ended December 31, 1996, 1997 and 1998.

MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(In thousands, except share and per share data)

(11) Segment Information

The following table presents a summary of operations by geographic region, including eliminations of all significant intercompany transactions:

Year ended December 31,

	1998	1997	1996
Revenue:			
Domestic..	$ 81,307	$39,310	$20,089
Europe...	25,123	14,247	2,514
Total revenue..	$106,430	$53,557	$22,603
Operating (loss) income:			
Domestic..	$ 6,870	$ (639)	$(1,172)
Europe...	2,456	1,011	(1,118)
Total operating (loss) income...........................	$ 9,326	$ 372	$(2,290)
Identifiable assets:			
Domestic..	$ 64,051	$21,376	
Europe...	18,638	8,689	
Total assets..	$ 82,689	$30,065	

Transfers of $1,047, $4,443 and $6,574 for the years ended December 31, 1996, 1997 and 1998, respectively, from domestic to foreign operations have been excluded from the above table and eliminated in the consolidated financial statements.

(12)   Subsequent Events

On February 10, 1999, the Company sold 1,585,000 shares of Class A Common Stock for approximately $40.1 million, net of expenses. In addition, certain Class B stockholders converted 415,000 shares of Class B Common Stock to Class A Common Stock which were also sold on February 10, 1999.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Vienna, Commonwealth of Virginia, on this ___ day of March, 1999.

MICROSTRATEGY INCORPORATED
(Registrant)

By:

    Name: Michael J. Saylor
    Title: President and Chief Executive Officer

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

Name	Position	Date
- --- Michael J. Saylor	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March __, 1999
- --- Sanju K. Bansal	Executive Vice President, Chief Operating Officer and Director	March __, 1999
- --- Mark S. Lynch	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March __, 1999
- ---	Director	March __, 1999

Frank A. Ingari

                                        Director   March __, 1999
- --
    Ralph S. Terkowitz

                                        Director   March __, 1999
- --
    Jonathan J. Ledecky

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                    VALUATION AND QUALIFYING ACCOUNTS
             FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO EXPENSES	DEDUCTIONS	BALANCE AT END OF PERIOD
Allowance for doubtful accounts				
December 31, 1996	77	381	–	458
December 31, 1997	458	312	–	770
December 31, 1998	770	1,468	(653)	1,585

                            INDEX TO EXHIBITS

Exhibit
Number   Description   Page
- -------   -----------   ----

  3.1   Certificate of Incorporation, as amended, of the Company.*
  3.2   Bylaws of the Company.*
  4.1   Form of Certificate of Class A Common Stock of the Company.*
 10.1   1996 Stock Plan (as amended) of the Company.**
 10.2   1997 Stock Option Plan for French Employees.***
 10.3   1997 Director Option Plan of the Company.****
 10.4   1998 Employee Stock Purchase Plan of the Company.
 10.5   Business Loan/Security Agreement between the Company and NationsBank,
           N.A. dated December 10, 1996.*****
 10.6   Modification of Business Loan/Security Agreement between the Company
           and NationsBank, N.A. dated November 20, 1997.******
 10.7   Modification of Business Loan/Security Agreement between the Company
           and NationsBank, N.A. dated September 25, 1998.*******
 10.8   Commitment Letter to the Company from NationsBank, N.A. dated
           January 29, 1999.********
 21.1   Subsidiaries of the Company.
 23.1   Consent of PricewaterhouseCoopers LLP.
 27.1   Financial Data Schedule.

- ----------
         *Filed as the identically numbered exhibit with the Company's
Registration Statement on Form S-1 (Registration No. 333-49899) and incorporated
by reference herein.

        **Filed as the identically numbered exhibit with the Company's
Quarterly Report on Form 10-Q for the quarter ended September 30, 1998
(File No. 000-24435), and incorporated by reference herein.

       ***Filed as Exhibit 10.6 with the Company's Registration Statement on
Form S-1 (Registration No. 333-49899) and incorporated by reference herein.

      ****Filed as Exhibit 10.7 with the Company's Registration Statement on
Form S-1 (Registration No. 333-49899) and incorporated by reference herein.

     *****Filed as Exhibit 10.8 with the Company's Registration Statement on

Form S-1 (Registration No. 333-49899) and incorporated by reference herein.

    ******Filed as Exhibit 10.9 with the Company's Registration Statement on
Form S-1 (Registration No. 333-49899) and incorporated by reference herein.

    *******Filed as Exhibit 10.14 with the Company's Registration Statement on
Form S-1 (Registration No. 333-70919) and incorporated by reference herein.

    ********Filed as Exhibit 10.15 with the Company's Registration Statement on
Form S-1 (Registration No. 333-70919) and incorporated by reference herein.

                                                        Exhibit 10.4

                      MICROSTRATEGY INCORPORATED

                   1998 EMPLOYEE STOCK PURCHASE PLAN

1. Purpose. The purpose of the Plan is to provide employees of the Company and
    ----
its Designated Subsidiaries with an opportunity to purchase Common Stock of the
Company through accumulated payroll deductions. It is the intention of the
Company to have the Plan qualify as an "Employee Stock Purchase Plan" under
Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of
the Plan, accordingly, shall be construed so as to extend and limit
participation in a manner consistent with the requirements of that section of
the Code.

2. Definitions.

          (a) "Board" shall mean the Board of Directors of the Company.

          (b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

          (c) "Common Stock" shall mean the Class A Common Stock of the Company.

          (d) "Company" shall mean MicroStrategy Incorporated, a Delaware
                ----
corporation, and any Designated Subsidiary of the Company.

          (e) "Compensation" shall mean all base straight time gross earnings,
                ----
commissions, payments for overtime, shift premium, incentive compensation,
incentive payments, bonuses and other compensation; provided, however, that for
the first Offering Period under the Plan, Compensation shall include only all
base straight time gross earnings.

          (f) "Designated Subsidiary" shall mean any Subsidiary which has been
                ----
designated by the Board from time to time in its sole discretion as eligible to
participate in the Plan.

          (g) "Employee" shall mean any individual who is an Employee of the
                ----
Company for tax purposes whose customary employment with the Company is at least
twenty (20) hours per week and more than five (5) months in any calendar year.
For purposes of the Plan, the employment relationship shall be treated as
continuing intact while the individual is on sick leave or other leave of
absence approved by the Company. Where the period of leave exceeds 90 days and
the individual's right to reemployment is not guaranteed either by statute or by
contract, the employment relationship shall be deemed to have terminated on the
91st day of such leave.

          (h) "Enrollment Date" shall mean the first day of each Offering Period.

          (i) "Exercise Date" shall mean the last day of each Offering Period.

          (j) "Fair Market Value" shall mean, as of any date, the value of Common
                ----
Stock determined as follows:

              (1) If the Common Stock is listed on any established stock
exchange or a national market system, including without limitation the Nasdaq
National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its
Fair Market Value shall be the closing sales price for such stock (or the
closing bid, if no sales were reported) as quoted on such exchange or system for

the last market trading day on the date of such determination, as reported in The Wall Street Journal or such other source as the Board deems reliable, or;

        (2) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean of the closing bid and asked prices for the Common Stock on the date of such determination, as reported in The Wall Street Journal or such other source as the Board deems reliable, or;

        (3) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board.

        (4) For purposes of the Enrollment Date of the first Offering Period under the Plan, the Fair Market Value shall be the initial price to the public as set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Company's Common Stock (the "Registration Statement").

     (k) "Offering Period" shall mean a period of approximately six (6)
        ----
months during which an option granted pursuant to the Plan may be exercised, commencing on the first Trading Day on or after February 1 and terminating on the last Trading Day in the period ending the following July 31, or commencing on the first Trading Day on or after August 1 and terminating on the last Trading Day in the period ending the following January 31; provided, however, that the first Offering Period under the Plan shall commence with the first Trading Day on or after the date on which the Securities and Exchange Commission declares the Company's Registration Statement effective and ending on the last Trading Day on or before January 31, 1999. The duration of Offering Periods may be changed pursuant to Section 4 of this Plan.

     (l) "Plan" shall mean this Employee Stock Purchase Plan.

     (m) "Purchase Price" shall mean an amount equal to 85% of the Fair
        ----
Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower; provided, however, that the Purchase Price may be adjusted by the Board pursuant to Section 20.

     (n) "Reserves" shall mean the number of shares of Common Stock covered
        ----
by each option under the Plan which have not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but not yet placed under option.

     (o) "Subsidiary" shall mean a corporation, domestic or foreign, of
        ----
which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

     (p) "Trading Day" shall mean a day on which national stock exchanges
        ----
and the Nasdaq System are open for trading.

3. Eligibility.

     (a) Any Employee who shall be employed by the Company on a given Enrollment Date shall be eligible to participate in the Plan.

     (b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Subsidiary, or (ii) to the extent that his or her rights to purchase stock

under all employee stock purchase plans of the Company and its subsidiaries accrues at a rate which exceeds Fifteen Thousand Dollars ($15,000) worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan shall be implemented by consecutive Offering
   ----
Periods with a new Offering Period commencing on the first Trading Day on or after February 1 and August 1 each year, or on such other date as the Board shall determine, and continuing thereafter until terminated in accordance with Section 20 hereof; provided, however, that the first Offering Period under the Plan shall commence with the first Trading Day on or after the date on which the Securities and Exchange Commission declares the Company's Registration Statement effective and ending on the last Trading Day on or before January 31, 1999. The Board shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without stockholder approval if such change is announced at least five (5) days prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. Participation.

        (a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions in the form of Exhibit A to this Plan and filing it with the Company's payroll office prior to the applicable Enrollment Date.

        (b) Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

6. Payroll Deductions.

        (a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in an amount not

                                   -3-

exceeding ten percent (10%) of the Compensation which he or she receives on each pay day during the Offering Period.

        (b) All payroll deductions made for a participant shall be credited to his or her account under the Plan and shall be withheld in whole, even percentages only. A participant may not make any additional payments into such account.

        (c) A participant may discontinue his or her participation in the Plan as provided in Section 10 hereof, but no other change can be made during an Offering Period and, specifically, a participant may not alter the rate of his or her payroll deductions for that Offering Period. A participant may increase or decrease the rate of his or her payroll deductions for successive Offering Periods by completing and filing with the Company a new subscription agreement authorizing a change in payroll deduction rate before the start of the new Offering Period. A participant's subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

        (d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a participant's payroll deductions may be decreased to zero percent (0%) at any time during an Offering Period. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Offering Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10 hereof.

        (e) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the

Company may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Employee.

7. Grant of Option. On the Enrollment Date of each Offering Period, each
   ----
eligible Employee participating in such Offering Period shall be granted an option to purchase on the Exercise Date of such Offering Period (at the applicable Purchase Price) up to a number of shares of the Company's Common Stock determined by dividing such Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price; provided that in no event shall an Employee be permitted to purchase during each Offering Period more than 1,000 shares (subject to any adjustment pursuant to Section 19), and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12 hereof. The Board may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of the Company' Common Stock an Employee may purchase during each Offering Period. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. The Option shall expire on the last day of the Offering Period.

-4-

8. Exercise of Option. Unless a participant withdraws from the Plan as
   ----
provided in Section 10 hereof, his or her option for the purchase of shares shall be exercised automatically on the Exercise Date, and the maximum number of full shares subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. No fractional shares shall be purchased; any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full share shall be retained in the participant's account for the subsequent Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 hereof. Any other monies left over in a participant's account after the Exercise Date shall be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

9. Delivery. As promptly as practicable after each Exercise Date on which a
   ----
purchase of shares occurs, the Company shall arrange the delivery to each participant, as appropriate, the shares purchased upon exercise of his or her option.

10. Withdrawal.

        (a) A participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by giving written notice to the Company in the form of Exhibit B to this Plan. All of the participant's payroll deductions credited to his or her account shall be paid to such participant promptly after receipt of notice of withdrawal and such participant's option for the Offering Period shall be automatically terminated, and no further payroll deductions for the purchase of shares shall be made for such Offering Period. If a participant withdraws from an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement.

        (b) A participant's withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the participant withdraws.

11. Termination of Employment. Upon a participant's ceasing to be an Employee
    ----
for any reason, he or she shall be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's account during the Offering Period but not yet used to exercise the option shall be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15 hereof, and such participant's option shall be

automatically terminated. The preceding sentence notwithstanding, a participant
who receives payment in lieu of notice of termination of employment shall be
treated as continuing to be an Employee for the participant's customary number
of hours per week of employment during the period in which the participant is
subject to such payment in lieu of notice.

12. Interest. No interest shall accrue on the payroll deductions of a
     ----
participant in the Plan.

13. Stock.

        (a) Subject to adjustment upon changes in capitalization of the Company
as provided in Section 19 hereof, the maximum number of shares of the Company's
Common Stock which shall be made available for sale under the Plan shall be
400,000 shares, plus an annual increase to be added on each anniversary date of
the adoption of the Plan equal to the lesser of (i) 100,000 shares or (ii) a
lesser amount determined by the Board. If, on a given Exercise Date, the number
of shares with respect to which options are to be exercised exceeds the number
of shares then available under the Plan, the Company shall make a pro rata
allocation of the shares remaining available for purchase in as uniform a manner
as shall be practicable and as it shall determine to be equitable.

        (b) The participant shall have no interest or voting right in shares
covered by his option until such option has been exercised.

        (c) Shares to be delivered to a participant under the Plan shall be
registered in the name of the participant or in the name of the participant and
his or her spouse.

14. Administration. The Plan shall be administered by the Board or a committee
     ----
of members of the Board appointed by the Board. The Board or its committee
shall have full and exclusive discretionary authority to construe, interpret and
apply the terms of the Plan, to determine eligibility and to adjudicate all
disputed claims filed under the Plan. Every finding, decision and determination
made by the Board or its committee shall, to the full extent permitted by law,
be final and binding upon all parties.

15. Designation of Beneficiary.

        (a) A participant may file a written designation of a beneficiary who is
to receive any shares and cash, if any, from the participant's account under the
Plan in the event of such participant's death subsequent to an Exercise Date on
which the option is exercised but prior to delivery to such participant of such
shares and cash. In addition, a participant may file a written designation of a
beneficiary who is to receive any cash from the participant's account under the
Plan in the event of such participant's death prior to exercise of the option.
If a participant is married and the designated beneficiary is not the spouse,
spousal consent shall be required for such designation to be effective.

        (b) Such designation of beneficiary may be changed by the participant at
any time by written notice. In the event of the death of a participant and in
the absence of a beneficiary validly designated under the Plan who is living at
the time of such participant's death, the Company shall deliver such shares
and/or cash to the executor or administrator of the estate of the participant,
or if no such executor or administrator has been appointed (to the knowledge of
the Company), the Company, in its discretion, may deliver such shares and/or
cash to the spouse or to any one or more dependents or relatives of the
participant, or if no spouse, dependent or relative is known to the Company,
then to such other person as the Company may designate.

16. Transferability. Neither payroll deductions credited to a participant's
     ----
account nor any rights with regard to the exercise of an option or to receive
shares under the Plan may be assigned, transferred, pledged or otherwise
disposed of in any way (other than by will, the laws of descent and

distribution or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. Use of Funds. All payroll deductions received or held by the Company under
    ----
the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. Reports. Individual accounts shall be maintained for each participant in
    ----
the Plan. Statements of account shall be given to participating Employees at least annually, which statements shall set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

19. Adjustments Upon Changes in Capitalization, Dissolution, Liquidation,
    ----
Merger or Asset Sale.
- --------------------

        (a) Changes in Capitalization. Subject to any required action by the
            ----
stockholders of the Company, the Reserves, the maximum number of shares each participant may purchase per Offering Period (pursuant to Section 7), as well as the price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration". Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

        (b) Dissolution or Liquidation. In the event of the proposed dissolution
            ----
or liquidation of the Company, the Offering Period then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date"), and shall terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Board. The New Exercise Date shall be before the date of the Company's proposed dissolution or liquidation. The Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

        (c) Merger or Asset Sale. In the event of a proposed sale of all or
            ----
substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each outstanding option shall be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation

refuses to assume or substitute for the option, the Offering Period then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date"). The New Exercise Date shall be before the date of the Company's proposed sale or merger. The Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period

as provided in Section 10 hereof.

20. Amendment or Termination.

        (a) The Board of Directors of the Company may at any time and for any
reason terminate or amend the Plan. Except as provided in Section 19 hereof, no
such termination can affect options previously granted, provided that an
Offering Period may be terminated by the Board of Directors on any Exercise Date
if the Board determines that the termination of the Offering Period or the Plan
is in the best interests of the Company and its stockholders. Except as provided
in Section 19 and Section 20 hereof, no amendment may make any change in any
option theretofore granted which adversely affects the rights of any
participant. To the extent necessary to comply with Section 423 of the Code (or
any other applicable law, regulation or stock exchange rule), the Company shall
obtain shareholder approval in such a manner and to such a degree as required.

        (b) Without stockholder consent and without regard to whether any
participant rights may be considered to have been "adversely affected," the
Board (or its committee) shall be entitled to change the Offering Periods,
change the frequency and/or number of changes in the amount withheld during an
Offering Period, establish the exchange ratio applicable to amounts withheld in
a currency other than U.S. dollars, permit payroll withholding in excess of the
amount designated by a participant in order to adjust for delays or mistakes in
the Company's processing of properly completed withholding elections, establish
reasonable waiting and adjustment periods and/or accounting and crediting
procedures to ensure that amounts applied toward the purchase of Common Stock
for each participant properly correspond with amounts withheld from the
participant's Compensation, and establish such other limitations or procedures
as the Board (or its committee) determines in its sole discretion advisable
which are consistent with the Plan.

        (c) In the event the Board determines that the ongoing operation of the
Plan may result in unfavorable financial accounting consequences, the Board may,
in its discretion and, to the extent necessary or desirable, modify or amend the
Plan to reduce or eliminate such accounting consequence including, but not
limited to:

            (1) altering the Purchase Price for any Offering Period
including an Offering Period underway at the time of the change in Purchase
Price;

            (2) shortening any Offering Period so that Offering Period ends
on a new Exercise Date, including an Offering Period underway at the time of the
Board action; and

            (3) allocating shares.

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    Such modifications or amendments shall not require stockholder approval or
the consent of any Plan participants.

21. Notices. All notices or other communications by a participant to the
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Company under or in connection with the Plan shall be deemed to have been duly
given when received in the form specified by the Company at the location, or by
the person, designated by the Company for the receipt thereof.

22. Conditions Upon Issuance of Shares. Shares shall not be issued with
    ----
respect to an option unless the exercise of such option and the issuance and
delivery of such shares pursuant thereto shall comply with all applicable
provisions of law, domestic or foreign, including, without limitation, the
Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as
amended, the rules and regulations promulgated thereunder, and the requirements
of any stock exchange upon which the shares may then be listed, and shall be
further subject to the approval of counsel for the Company with respect to such
compliance.

    As a condition to the exercise of an option, the Company may require the
person exercising such option to represent and warrant at the time of any such
exercise that the shares are being purchased only for investment and without any
present intention to sell or distribute such shares if, in the opinion of
counsel for the Company, such a representation is required by any of the

aforementioned applicable provisions of law.

23. Non-U.S. Participants. With respect to any Designated Subsidiary which
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employs participants who reside outside the United States, and notwithstanding
anything herein to the contrary, the Board or its committee administering the
Plan may in its sole discretion amend the terms of the Plan in order to conform
such terms with the requirements of local law or to meet the objectives of the
Plan, and may, where appropriate, establish one or more sub-plans to reflect
such amended provisions.

24. Term of Plan. The Plan shall become effective upon the earlier to occur of
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its adoption by the Board of Directors or its approval by the stockholders of
the Company. It shall continue in effect for a term of ten (10) years unless
sooner terminated under Section 20 hereof.

                                    -9-

                                EXHIBIT A

                         MICROSTRATEGY INCORPORATED

                    1998 EMPLOYEE STOCK PURCHASE PLAN

                         SUBSCRIPTION AGREEMENT

       _____ Original Application Enrollment Date: _____

       _____ Change in Payroll Deduction Rate

       _____ Change of Beneficiary(ies)

1.   _____ hereby elects to participate in the
       MicroStrategy Incorporated 1998 Employee Stock Purchase Plan (the "Employee
       Stock Purchase Plan") and subscribes to purchase shares of the Company's
       Common Stock in accordance with this Subscription Agreement and the
       Employee Stock Purchase Plan.

2.   I hereby authorize payroll deductions from each paycheck in the amount of
       ____% of my Compensation on each payday (from 0 to 10%, in even percentages
       only) during the Offering Period in accordance with the Employee Stock
       Purchase Plan. (Please note that no fractional percentages are permitted.)

3.   I understand that said payroll deductions shall be accumulated for the
       purchase of shares of Common Stock at the applicable Purchase Price
       determined in accordance with the Employee Stock Purchase Plan. I
       understand that if I do not withdraw from an Offering Period, any
       accumulated payroll deductions will be used to automatically exercise my
       option.

4.   I have received a copy of the complete Employee Stock Purchase Plan. I
       understand that my participation in the Employee Stock Purchase Plan is in
       all respects subject to the terms of the Plan. I understand that my
       ability to exercise the option under this Subscription Agreement is subject
       to stockholder approval of the Employee Stock Purchase Plan.

5.   Shares purchased for me under the Employee Stock Purchase Plan should be
       issued in the name(s) of (Employee or Employee and Spouse only):
       _____.

6.   I understand that if I dispose of any shares received by me pursuant to the
       Plan within 2 years after the Enrollment Date (the first day of the
       Offering Period during which I purchased such shares), I will be treated
       for federal income tax purposes as having received ordinary income at the
       time of such disposition in an amount equal to the excess of the fair
       market value of the shares at the time such shares were purchased by me
       over the price which I paid for the shares. I hereby agree to notify the
                                                    ----
       Company in writing within 30 days after the date of any disposition of
       ----
       shares and I will make adequate provision for Federal, state or other tax

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     ---------------------------------------------------------------------
     withholding obligations, if any, which arise upon the disposition of the
     ---------------------------------------------------------------------
     Common Stock.   The
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Company may, but will not be obligated to, withhold from my compensation
the amount necessary to meet any applicable withholding obligation
including any withholding necessary to make available to the Company any
tax deductions or benefits attributable to sale or early disposition of
Common Stock by me. If I dispose of such shares at any time after the
expiration of the 2-year holding period, I understand that I will be
treated for federal income tax purposes as having received income only at
the time of such disposition, and that such income will be taxed as
ordinary income only to the extent of an amount equal to the lesser of (1)
the excess of the fair market value of the shares at the time of such
disposition over the purchase price which I paid for the shares, or (2) 15%
of the fair market value of the shares on the first day of the Offering
Period. The remainder of the gain, if any, recognized on such disposition
will be taxed as capital gain.

7.   I hereby agree to be bound by the terms of the Employee Stock Purchase
     Plan. The effectiveness of this Subscription Agreement is dependent upon
     my eligibility to participate in the Employee Stock Purchase Plan.

8.   In the event of my death, I hereby designate the following as my
     beneficiary(ies) to receive all payments and shares due me under the
     Employee Stock Purchase Plan:

NAME: (Please print) _____
                        (First)   (Middle)   (Last)

_____   _____
Relationship

                              _____
                              (Address)

Employee's Social
Security Number: _____

Employee's Address: _____

                              _____

                              _____

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT SHALL REMAIN IN EFFECT THROUGHOUT
SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME.

Dated: _____   _____
                                     Signature of Employee

                                     _____
                                     Spouse's Signature
                                     (If beneficiary other than spouse)

                              -2-

                         EXHIBIT B

                 MICROSTRATEGY INCORPORATED

             1998 EMPLOYEE STOCK PURCHASE PLAN

                   NOTICE OF WITHDRAWAL

     The undersigned participant in the Offering Period of the MicroStrategy
Incorporated 1998 Employee Stock Purchase Plan which began on _____ 19____
(the "Enrollment Date") hereby notifies the Company that he or she hereby

withdraws from the Offering Period. He or she hereby directs the Company to pay to the undersigned as promptly as practicable all the payroll deductions credited to his or her account with respect to such Offering Period. The undersigned understands and agrees that his or her option for such Offering Period will be automatically terminated. The undersigned understands further that no further payroll deductions will be made for the purchase of shares in the current Offering Period and the undersigned shall be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement.

Name and Address of Participant:

_____

_____

_____

Signature:

_____

Date: _____

Exhibit 21.1

MICROSTRATEGY INCORPORATED

Subsidiaries

MicroStrategy Incorporated
8000 Towers Crescent Drive
Vienna, VA 22182

Aventine Incorporated
(Delaware)

MicroStrategy Capital Corporation
(Delaware)

MicroStrategy GmbH
(Austria)

MicroStrategy-FSC, Inc.
(Barbados)

MicroStrategy International Limited
(Bermuda)

MicroStrategy Canada Incorporated
(Canada)

MicroStrategy France SARL
(France)

MicroStrategy Deutschland GmbH
(Germany)

MicroStrategy Italy S.r.l.
(Italy)

MicroStrategy Benelux B.V.
(Netherlands)

MicroStrategy Iberica, S.A.
(Spain)

MicroStrategy Limited
(United Kingdom)

Exhibit 23.1

                       Consent of Independent Accountants

We consent to the incorporation by reference in the registration statement of
MicroStrategy Incorporated and its subsidiaries on Form S-8 (File No. 333-58189)
of our reports dated February 16, 1999, on our audits of the consolidated
financial statements and financial statement schedule of MicroStrategy
Incorporated and its subsidiaries as of December 31, 1998 and 1997 and for the
years ended December 31, 1998, 1997 and 1996, which report is included in the
MicroStrategy Incorporated Annual Report on Form 10-K.

                                        PricewaterhouseCoopers LLP

Washington, D.C.
March 24, 1999

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