UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2005

OR

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

For the transition period from to

Commission File Number 000-24435

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

Delaware
(State of incorporation)

1861 International Drive, McLean, VA
(Address of Principal Executive Offices)

22102
(Zip Code)

51-0323571
(I.R.S. Employer Identification Number)

Registrant's telephone number, including area code: (703) 848-8600

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

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

The number of shares of the registrant's class A common stock and class B common stock outstanding on May 1, 2005 was 12,902,757 and 3,394,399, respectively.

MICROSTRATEGY INCORPORATED

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2005	December 31, 2004
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 63,239	$ 68,314
Restricted cash and investments	6,225	1,210
Short-term investments	68,385	37,816
Accounts receivable, net	27,903	40,917
Prepaid expenses and other current assets	6,085	6,337
Deferred tax assets, net	20,417	20,583
Total current assets	192,254	175,177
Property and equipment, net	15,086	16,096
Capitalized software development costs, net	5,518	5,479
Long-term investments	26,370	26,365
Deposits and other assets	2,831	3,021
Deferred tax assets, net	108,966	110,818
Total assets	$ 351,025	$ 336,956
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 13,955	$ 18,906
Accrued compensation and employee benefits	17,634	25,292
Accrued restructuring costs	1,750	1,762
Deferred revenue and advance payments	52,005	43,674
Total current liabilities	85,344	89,634
Deferred revenue and advance payments	1,314	1,681
Other long-term liabilities	3,207	3,157
Accrued restructuring costs	1,553	1,906
Total liabilities	91,418	96,378
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock undesignated, par value $0.001 per share, 4,971 shares authorized, no shares issued or outstanding	—	—
Class A common stock, par value $0.001 per share, 330,000 shares authorized, 12,968 shares issued and 12,900 shares outstanding, and 12,841 shares issued and 12,773 outstanding, respectively	13	13
Class B common stock, par value $0.001 per share, 165,000 shares authorized, 3,394 and 3,394 shares issued and outstanding, respectively	3	3
Additional paid-in capital	421,718	417,287
Treasury stock, at cost; 68 and 68 shares, respectively	(2,331)	(2,331)
Accumulated other comprehensive income	2,751	3,206
Accumulated deficit	(162,547)	(177,600)
Total stockholders' equity	259,607	240,578
Total liabilities and stockholders' equity	$ 351,025	$ 336,956

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

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

	Three Months Ended March 31,	
	2005	2004
Revenues:		
Product licenses	$21,811	$18,811
Product support and other services	38,175	30,295
Total revenues	59,986	49,106
Cost of revenues:		
Product licenses	1,277	844
Product support and other services	7,416	6,911
Total cost of revenues	8,693	7,755
Gross profit	51,293	41,351
Operating expenses:		
Sales and marketing	17,234	16,406
Research and development	7,218	6,730
General and administrative	8,352	7,953
Amortization of intangible assets	18	18
Total operating expenses	32,822	31,107
Income from operations	18,471	10,244
Financing and other income:		
Interest income	872	115
Interest expense	(15)	(14)
Gain on investments	18	—
Other income, net	258	806
Total financing and other income	1,133	907
Income before income taxes	19,604	11,151
Provision for income taxes	4,551	772
Net income	$15,053	$10,379
Basic earnings per share	$ 0.93	$ 0.65
Diluted earnings per share	$ 0.89	$ 0.60
Basic weighted average shares outstanding	16,224	16,010
Diluted weighted average shares outstanding	16,965	17,253

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

MICROSTRATEGY INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three months ended March 31,	
	2005	2004
Operating activities:		
Net income	$ 15,053	$10,379
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:		
Depreciation and amortization	2,373	2,061
Bad debt (recovery) expense	(134)	306
Deferred taxes	3,836	248
Discount amortization on short-term and long-term investments	(284)	—
Other, net	(14)	8
Changes in operating assets and liabilities:		
Accounts receivable	12,037	7,268
Prepaid expenses and other current assets	214	423
Deposits and other assets	144	152
Accounts payable and accrued expenses, compensation and employee benefits	(11,004)	(3,966)
Accrued restructuring costs	(385)	(610)
Deferred revenue and advance payments	8,611	8,809
Other long-term liabilities	50	(17)
Net cash provided by operating activities	30,497	25,061
Investing activities:		
Proceeds from maturities of short-term investments	19,000	—
Purchases of short-term investments	(49,293)	—
Purchases of property and equipment, net	(537)	(2,019)
Capitalized software development costs	(926)	(418)
Increase in restricted cash and investments	(5,061)	(1)
Net cash used in investing activities	(36,817)	(2,438)
Financing activities:		
Proceeds from sale of class A common stock under employee stock purchase plan and exercise of employee stock options	2,407	1,904
Net cash provided by financing activities	2,407	1,904
Effect of foreign exchange rate changes on cash and cash equivalents	(1,162)	(123)
Net (decrease) increase in cash and cash equivalents from continuing operations	(5,075)	24,404
Net cash received from discontinued operations	—	35
Net (decrease) increase in cash and cash equivalents	(5,075)	24,439
Cash and cash equivalents, beginning of period	68,314	51,882
Cash and cash equivalents, end of period	$ 63,239	$76,321

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Basis of Presentation

Except for the consolidated balance sheet of MicroStrategy Incorporated ("MicroStrategy" or the "Company") as of December 31, 2004, which is derived from audited financial statements, the accompanying consolidated financial statements are unaudited. In the opinion of management, all adjustments (consisting of normal recurring items) necessary for a fair statement of such financial position and results of operations have been included. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements and notes are presented as required by Form 10-Q and do not contain certain information included in the Company's annual financial statements and notes. These financial statements should be read in conjunction with the Company's audited financial statements and the notes thereto filed with the Securities and Exchange Commission ("SEC") in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Certain prior year amounts in the consolidated financial statements have been reclassified to conform to the current year presentation.

(2) Recent Accounting Standards

In May 2005, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. 47 ("FIN 47"), "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143." FIN 47 requires asset retirement obligations to be recorded when a legal obligation exists even though the timing and/or method of the settlement of such obligations is conditional on a future event. The Company does not believe that adoption of FIN 47 will have a material impact on its financial condition or results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised) ("SFAS No. 123R"), "Share-Based Payment". SFAS No. 123R eliminates the intrinsic value method under APB 25 as an alternative method of accounting for stock-based awards. SFAS No. 123R also revises the fair value-based method of accounting for share-based payment liabilities, forfeitures and modifications of stock-based awards and clarifies the guidance of SFAS No. 123, "Accounting for Stock-based Compensation," in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to reporting periods. In addition, SFAS No. 123R amends SFAS No. 95, "Statement of Cash Flows," to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid, which is included within operating cash flows. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB No. 107"), which provides guidance for the implementation of SFAS No. 123R, including guidance related to share-based payment transactions with nonemployees, valuation methods, the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, and the accounting for income tax effects of share-based payment arrangements under SFAS No. 123R.

In April 2005, the SEC delayed the implementation date for SFAS No. 123R until an issuer's first annual period that begins after June 15, 2005. Therefore, the Company is required to adopt SFAS No. 123R effective January 1, 2006, using one of three implementation alternatives specified under SFAS No. 123R. The Company anticipates that the adoption of SFAS No. 123R will have a significant impact on the Company's financial statements. The Company is currently in the process of determining which implementation alternative to use and what the expected financial impact of SFAS No. 123R may be.

In October 2004, the American Jobs Creation Act of 2004 (the "AJCA") was signed into law in the United States. Among other things, the AJCA includes a temporary incentive for U.S. companies to repatriate accumulated foreign earnings by providing an elective 85% dividends received deduction for certain dividends from controlled foreign corporations. This provision is effective either for 2004 or 2005 for calendar-year taxpayers. The AJCA also includes a qualified manufacturing deduction which may be applicable software companies such as MicroStrategy.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

In December 2004, the FASB issued Staff Position No. 109-1 ("FSP No. 109-1"), "Application of FASB Statement No. 109, 'Accounting for Income Taxes,' to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" and Staff Position No. 109-2 ("FSP No. 109-2"), "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004."

Under FSP No. 109-1, the FASB determined that any benefit from the tax deduction on qualified production activities taken under the AJCA should be reported in the period in which the deduction is claimed on the tax return. The deduction should be considered when determining the effective annual tax rate used for interim financial reporting and, if significant, should be disclosed separately in the effective tax rate reconciliation.

Under FSP No. 109-2, the FASB determined that a deferred tax liability must be recognized for the tax effect of the excess of book basis over tax basis of an investment in a foreign subsidiary or foreign corporate joint venture that is permanent in duration, unless an enterprise affirmatively asserts that such amounts are indefinitely reinvested outside of the enterprise's home tax jurisdiction. Although SFAS No. 109 requires that the effects of changes in tax laws be reflected in the period of enactment, because of the proximity of the AJCA's enactment date to the end of the fiscal year for many companies and the complexity of many of the AJCA's provisions, the FASB provided companies with an exception to the requirements of SFAS No. 109 by providing them additional time to determine the amount of earnings, if any, that they intend to repatriate under the AJCA's beneficial provisions. However, if it is determined that an amount of earnings will be repatriated, the associated tax liability must be recognized in that period.

The Company is currently in the process of analyzing the AJCA and has not made a determination as to whether any actions will be taken as a result of this new law. The AJCA, FSP No. 109-1, and FSP No. 109-2 did not have a material impact on the Company's financial condition or results of operations during the first quarter of 2005.

(3) Restricted Cash and Investments

On March 15, 2005, the Company entered into a security agreement with a bank under which the Company posted $5.1 million in cash to secure existing letters of credit issued by the bank in favor of the Company. These letters of credit are used as security deposits for certain of the Company's office leases including the office lease for its corporate headquarters. Under the security agreement, the Company may invest the $5.1 million of cash collateral in certain permitted investments. As of March 31, 2005, $4.9 million of the $5.1 million of cash collateral is invested in short-term U.S. Treasury bills. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and based on the Company's intentions regarding the U.S. Treasury bills, the Company has classified these investments as held-to-maturity and has accounted for these investments at amortized cost. The $5.1 million posted by the Company to secure existing letters of credit is classified as restricted cash and investments on the accompanying balance sheet.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The Company's restricted cash and investments were comprised of the following as of (in thousands):

	March 31, 2005	December 31, 2004
Cash and investments securing letters of credit:		
Cash	$ 118	$ —
Short-term U.S. Treasury bills	4,942	—
Total cash and investments securing letters of credit:	5,060	—
Other restricted cash	1,165	1,210
Total restricted cash and investments	$ 6,225	$ 1,210

(4) Accounts Receivable

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

	March 31, 2005	December 31, 2004
Billed and billable	$ 56,848	$ 82,748
Less: billed and unpaid deferred revenue	(27,152)	(39,766)
	29,696	42,982
Less: allowance for doubtful accounts	(1,793)	(2,065)
	$ 27,903	$ 40,917

The Company offsets its accounts receivable and deferred revenue for any billed and unpaid items included in deferred revenue and advance payments.

(5) Investments

The Company's short-term and long-term investments consisted of the following as of (in thousands):

			March 31, 2005		December 31, 2004	
	Purchase Date	Maturity Date	Carrying Value	Cost	Carrying Value	Cost
Short-term:						
U.S. Treasury Bill	12/10/2004	2/10/2005	$ —	$ —	$ 9,478	$ 9,466
U.S. Treasury Bill	12/10/2004	3/10/2005	—	—	9,461	9,448
U.S. Treasury Bill	12/10/2004	4/14/2005	9,492	9,425	9,438	9,425
U.S. Treasury Bill	12/10/2004	5/12/2005	9,476	9,409	9,422	9,409
U.S. Treasury Bill	2/17/2005	8/18/2005	9,896	9,863	—	—
U.S. Treasury Bill	3/8/2005	9/1/2005	19,753	19,714	—	—
U.S. Treasury Bill	3/9/2005	9/1/2005	19,753	19,716	—	—
Marketable equity securities			15	100	17	100
Total Short-term			$68,385	$68,227	$37,816	$37,848
Long-term:						
U.S. Treasury Note	6/30/2004	6/30/2006	$26,370	$26,353	$26,365	$26,353

In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and based on the Company's intentions regarding these instruments, the Company has classified the investments in the U.S. Treasury bills and the U.S. Treasury note as held-to-maturity and has accounted for these investments at amortized cost.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(6) Deferred Revenue and Advance Payments

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

	March 31, 2005	December 31, 2004
Current:		
Deferred product revenue	$ 2,073	$ 5,863
Deferred product support and other services revenue	75,837	76,989
	77,910	82,852
Less: billed and unpaid deferred revenue	(25,905)	(39,178)
	$ 52,005	$ 43,674
Non-current:		
Deferred product revenue	$ 330	$ 290
Deferred product support and other services revenue	2,231	1,979
	2,561	2,269
Less: billed and unpaid deferred revenue	(1,247)	(588)
	$ 1,314	$ 1,681

The Company offsets its accounts receivable and deferred revenue for any billed and unpaid items included in deferred revenue and advance payments.

(7) Litigation

(a) *Business Objects Litigation*

On October 2, 2001, the Company filed a lawsuit in the Virginia Circuit Court for Fairfax County against two field employees of Business Objects, S.A. This lawsuit alleged that these employees, who previously worked for the Company, breached their fiduciary and contractual obligations to the Company by, among other things, misappropriating the Company's trade secrets and confidential information and soliciting the Company's employees and customers. The complaint sought injunctive relief and monetary damages. On October 17, 2001, Business Objects filed suit against the Company in the United States District Court for the Northern District of California, claiming that the Company's software infringes a patent issued to Business Objects relating to relational database access (the '403 patent). The suit sought injunctive relief and monetary damages. On August 29, 2003, the Court granted the Company's motion for summary judgment and dismissed the lawsuit, ruling as a matter of law that the Company's products do not infringe the '403 patent. Business Objects filed an appeal to the United States Court of Appeals for the Federal Circuit. The Federal Circuit heard oral arguments on September 9, 2004. On January 6, 2005, the Federal Circuit ruled that the district court had correctly construed the patent, that the Company does not literally infringe any of the asserted patent claims, and that Business Objects is legally barred from claiming that the Company's products infringe two of the three asserted claims under the doctrine of equivalents. As a result of the Federal Circuit's ruling, the case has been remanded to the district court for further proceedings limited solely to Business Objects' one remaining patent claim, and limited solely to the doctrine of equivalents. The Federal Circuit also reinstated all of the Company's non-infringement and invalidity counterclaims brought against Business Objects that the district court had not needed to address or decide.

On October 31, 2001, the Company filed suit against Business Objects, S.A. and its subsidiary, Business Objects Americas, Inc., in the United States District Court for the Eastern District of Virginia, claiming that Business Objects' software infringes two patents held by the Company relating to asynchronous control of report generation using a web browser (the '033 patent) and a system and method of adapting automatic output of OLAP reports to disparate user output devices (the ‘050 patent). The complaint sought monetary damages and injunctive relief. On March 13, 2002, the Company voluntarily dismissed without prejudice the Company’s lawsuit pending in the Virginia Circuit Court for Fairfax County against the two field employees of Business Objects. The complaint against Business Objects was amended to add claims for violations of the federal Computer Fraud and Abuse Act, misappropriation of trade secrets, tortious interference with contractual relations and violations of the Virginia Conspiracy Act. As a result of pre-trial rulings, certain of these claims were dismissed. The Company’s claims for tortious interference and misappropriation of trade secrets proceeded to trial on October 20, 2003. On October 28, 2003, the Court dismissed the tortious interference claim. In July 2003, the United States Patent & Trademark Office confirmed the validity of all the claims in the ‘033 and ‘050 patents and terminated reexamination proceedings that Business Objects had requested as to those patents. The Company agreed to dismissal of the ‘033 patent claims without prejudice. On June 8, 2004, the Court advised the parties that it intended to issue an order and opinion granting Business Objects’ motion for summary judgment of non-infringement on the Company’s ‘050 patent claims, and that the trial of the ‘050 patent claims previously scheduled to begin on June 15, 2004 would not occur. On August 6, 2004, the Court granted Business Objects’ motion for summary judgment on the ‘050 patent claims, ruling that Business Objects had not infringed the Company’s patent. The Court ruled in the Company’s favor on the Company’s claims of trade secret misappropriation, finding that Business Objects had misappropriated certain of the Company’s trade secrets. On September 7, 2004, the Company filed a notice of appeal to the United States Court of Appeals for the Federal Circuit. Business Objects did not file a cross appeal. The Company filed its opening appeal brief on January 7, 2005. Business Objects filed its opposition brief on March 22, 2005. The Company filed its reply brief on April 8, 2005. In addition, on December 3, 2004, the district court denied the Company’s motion for costs and Business Objects’ motion for fees and costs. Each party appealed this ruling by filing a notice of appeal to the Federal Circuit on January 3, 2005. On January 27, 2005, the parties filed a joint motion to stay these appeals regarding fees and costs pending the outcome of the merits appeal. This motion to stay was granted on March 9, 2005.

On December 10, 2003, the Company filed a complaint for patent infringement against Crystal Decisions, Inc. in the United States District Court for the District of Delaware. The lawsuit alleges that Crystal Decisions willfully infringes three patents issued to the Company relating to: (i) asynchronous control of report generation using a web browser (the ‘033 patent); (ii) management of an automatic OLAP report broadcast system (the ‘796 patent); and (iii) providing business intelligence web content with reduced client-side processing (the ‘432 patent). The Company is seeking monetary damages and injunctive relief. Following the filing of the complaint, Crystal Decisions was acquired by Business Objects Americas, Inc. Business Objects Americas, Inc. has answered the complaint, denying infringement and seeking a declaration that the patents in suit are invalid and not infringed by Business Objects Americas, Inc. Discovery has begun and trial is scheduled for May 2006.

The outcome of the legal proceedings described above is uncertain, and, as such, the Company is currently unable to estimate a potential range of gain or loss, if any, related to these proceedings. Accordingly, no provision for these matters has been made in the accompanying consolidated financial statements.

(b) Other Matters

The Company is also involved in other legal proceedings through the normal course of business. Management believes that any unfavorable outcome related to these other proceedings will not have a material effect on the Company’s financial position, results of operations or cash flows.

(8) Income Taxes

As of June 30, 2004, the Company’s U.S. and Canadian net operating losses (“NOLs”) and other deferred tax assets were fully offset by a valuation allowance primarily because, at the time, pursuant to SFAS No. 109, “Accounting for Income Taxes”, the Company did not have sufficient history of taxable income to

MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

conclude that it was more likely than not that the Company would be able to realize the tax benefits of those deferred tax assets. Based upon the Company's cumulative operating results through September 30, 2004 and an assessment of the Company's expected future results of operations, during the third quarter of 2004, the Company determined that it is more likely than not that it would be able to realize a substantial portion of its U.S. and Canadian net operating loss carryforward tax assets prior to their expiration and other deferred tax assets. As a result, during the third and fourth quarters of 2004, the Company released a total of $129.2 million of its U.S. and Canadian deferred tax asset valuation allowance. Of the $129.2 million, $107.4 million of the valuation release was recorded as an income tax benefit in the Company's statement of operations, and $21.8 million of the valuation release was attributable to stock option exercises, which was recorded as an increase in additional paid-in capital on the balance sheet.

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

	March 31, 2005	December 31, 2004
Deferred tax assets, net	$136,068	$ 138,663
Valuation allowance	(6,685)	(7,262)
Deferred tax assets, net	$129,383	$ 131,401
Short-term deferred tax assets	$ 20,417	$ 20,583
Long-term deferred tax assets	108,966	110,818
Total deferred tax assets	$129,383	$ 131,401

The remaining valuation allowance as of March 31, 2005 primarily relates to certain domestic capital loss carryforwards and foreign net operating loss carryforwards that the Company expects will expire unused.

In determining the Company's net deferred tax assets and valuation allowances, management is required to make judgments and estimates related to projections of domestic and foreign profitability, the timing and extent of the utilization of net operating loss carryforwards, applicable tax rates, transfer pricing methodologies and prudent and feasible tax planning strategies. Judgments and estimates related to the Company's projections and assumptions are inherently uncertain; therefore, actual results could differ materially from the Company's projections. The timing and manner in which the Company will utilize the net operating loss carryforwards, research and development tax credit carryforward tax assets, alternative minimum tax credit carryforward tax assets, and foreign tax credit carryforward tax assets in any year, or in total, may be limited by provisions of the Internal Revenue Code regarding changes in ownership of the Company. Currently, the Company expects to use the tax assets subject to Internal Revenue Code limitations within the carryforward period.

As required under Accounting Principles Board ("APB") Opinion No. 28, "Interim Financial Reporting", the Company has estimated its annual effective tax rate for the full fiscal year 2005 and applied that rate to its income before income taxes in determining its provision for income taxes for the interim period. Accordingly, for the three-month period ended March 31, 2005, the Company's consolidated annualized effective tax rate was approximately 23%.

(9) Comprehensive Income

Comprehensive income includes foreign currency translation adjustments and unrealized gains and losses on short-term investments, net of related tax effects, that have been excluded from net income and reflected in stockholders' equity as accumulated other comprehensive income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The Company's comprehensive income consisted of the following as of (in thousands):

	Three Months Ended March 31,	
	2005	**2004**
Net income	$15,053	$10,379
Foreign currency translation adjustment	(455)	(746)
Comprehensive income	$14,598	$ 9,633

(10) Earnings per Share and Pro Forma Earnings per Share

(a) Basic and diluted earnings per share

Basic earnings per share is determined by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by dividing net income by the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares are included in the diluted earnings per share calculation when dilutive. Potential common shares consisting of common stock issuable upon exercise of outstanding employee stock options and warrants are computed using the treasury stock method.

(b) Pro forma basic and diluted earnings per share

In December 2004, the FASB issued SFAS No. 123 (revised) ("SFAS No. 123R"), "Share-Based Payment". SFAS No. 123R eliminates the intrinsic value method under APB 25 as an alternative method of accounting for stock-based awards. SFAS No. 123R also revises the fair value-based method of accounting for share-based payment liabilities, forfeitures and modifications of stock-based awards and clarifies the guidance of SFAS No. 123, "Accounting for Stock-based Compensation," in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to reporting periods. In addition, SFAS No. 123R amends SFAS No. 95, "Statement of Cash Flows," to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid, which is included within operating cash flows. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB No. 107"), which provides guidance for the implementation of SFAS No. 123R, including guidance related to share-based payment transactions with nonemployees, valuation methods, the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, and the accounting for income tax effects of share-based payment arrangements under SFAS No. 123R.

In April 2005, the SEC delayed the implementation date for SFAS No. 123R until an issuer's first annual period that begins after June 15, 2005. Therefore, the Company is required to adopt SFAS No. 123R effective January 1, 2006, using one of three implementation alternatives specified under SFAS No. 123R. The Company anticipates that the adoption of SFAS No. 123R will have a significant impact on the Company's financial statements. The Company is currently in the process of determining which implementation alternative to use and what the expected financial impact of SFAS No. 123R may be.

As all options granted under the Company's stock plans had an exercise price equal to the market value of the underlying common stock on the date of grant, and because the Company measures compensation expense based upon the intrinsic value method pursuant to APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, no stock-based employee compensation cost is reflected in net income. If compensation expense had been recorded based on the fair value of awards under the stock option and purchase plans as set forth in SFAS No. 123R, the Company's net income would have been adjusted to the pro forma amounts presented below, for the three months ended March 31, 2005 and 2004, respectively (in thousands, except per share data):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

	Three Months Ended March 31,	
	2005	2004
Net income, as reported	$15,053	$10,379
Stock-based employee compensation expense under fair value based method, net of tax (1)	(978)	(3,139)
Pro forma net income, net of tax	$14,075	$ 7,240
Basic earnings per share, as reported	$ 0.93	$ 0.65
Diluted earnings per share, as reported	$ 0.89	$ 0.60
Basic earnings per share, pro forma	$ 0.87	$ 0.45
Diluted earnings per share, pro forma	$ 0.83	$ 0.42

(1) For the first quarter of 2004 there is no tax impact on the pro forma stock-based employee compensation expense because the Company's net deferred tax assets were fully offset by a valuation allowance. During the third and fourth quarters of 2004, the Company released substantially all of the Company's valuation allowance. Accordingly, the pro forma stock-based employee compensation expense related to the first quarter of 2005 is shown net of tax of approximately $592,000 using a combined domestic federal and state effective tax rate of 37.7%.

The fair value of each option in the pro forma analysis shown above is estimated using the Black-Scholes option-pricing model with the following assumptions used for option grants issued during the three months ended March 31, 2004 under MicroStrategy's stock option plans: volatility factor of 50%, risk-free interest rate of 3%, weighted-average expected life of 5 years, and no dividend yields. No stock options were granted under MicroStrategy's stock option plans during the three months ended March 31, 2005.

The following assumptions were used for shares issued during the three months ended March 31, 2005 and 2004, respectively, under MicroStrategy's employee stock purchase plan: volatility factors of 66% and 50%, risk-free interest rates of 4% and 3%, weighted-average expected life of 6 months, and no dividend yields.

The weighted average fair value of grants made under MicroStrategy's stock option plans during the three months ended March 31, 2005 and 2004 were $0 and $28.64 per share, respectively.

(11) Segment Information

The Company operates in one significant business segment – business intelligence. The Company's total revenues and long-lived assets, excluding long-term investments and long-term deferred tax assets, consisted of the following according to geographic region (in thousands):

	Domestic	International	Consolidated
Three Months Ended March 31, 2005			
Total license and service revenues	$34,546	$ 25,440	$ 59,986
Long-lived assets	20,337	3,098	23,435
Three Months Ended March 31, 2004			
Total license and service revenues	$28,128	$ 20,978	$ 49,106
Long-lived assets	19,240	2,769	22,009

The domestic region includes operations in the U.S. and Canada. The international region includes operations in all other countries. For the three months ended March 31, 2005, Germany accounted for 10.7% of total consolidated revenues. No other individual foreign country accounted for 10% or more of total consolidated revenues.

MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Transfers relating to intercompany software fees from international to domestic operations of $11.4 million and $10.3 million for the three months ended March 31, 2005 and 2004, respectively, have been excluded from the above tables and eliminated in the consolidated financial statements.

For the three months ended March 31, 2005, no individual customer accounted for 10% or more of the Company's total consolidated revenues. For the three months ended March 31, 2004, one large retail customer in the United Kingdom accounted for approximately 10% of the Company's total consolidated revenues.

(12) Restructuring and Impairment Charges

During 2001, the Company adopted restructuring plans which included a strategic decision to focus operations on the business intelligence market, the elimination or reduction of speculative technology initiatives, a reduction of the Company's workforce and a consolidation of its multiple Northern Virginia facilities into a single location in McLean, Virginia.

The following table sets forth a summary of accrued restructuring costs (in thousands):

	Accrued Restructuring Costs at December 31, 2004	Q1 2005 Cash Payments	Accrued Restructuring Costs at March 31, 2005
Estimated sublease losses and other facility closing costs	$ 3,620	$ (359)	$ 3,261
Terminations of equipment leases	48	(6)	42
Total accrued restructuring costs	$ 3,668	$ (365)	$ 3,303

As of March 31, 2005, unpaid amounts of $1.8 million and $1.6 million have been classified as current and long-term accrued restructuring costs, respectively, in the accompanying consolidated balance sheet. Amounts related to the estimated sublease losses associated with exiting facilities and terminations of equipment leases will be paid over the respective lease terms through February 2009. As a result of the restructuring, the Company has approximately 77,000 square feet of office space that is not occupied by the Company with the following expiration dates: 46,000 square feet expire in August 2006 and 31,000 square feet expire in February 2009. As of March 31, 2005, the Company had subleased all 77,000 square feet of office space that is not occupied by the Company. The accrued restructuring costs as of March 31, 2005 of $3.3 million primarily represented losses associated with office space that is not occupied by the Company. As of March 31, 2005, the Company had $6.2 million in gross lease obligations and $730,000 in estimated related costs, partially offset by $3.6 million in estimated gross sublease income recoveries during the remaining lease terms. The Company estimated its sublease losses based upon current information available relating to sublease commission costs, sub-tenant concession costs, sublease rental income, lease obligations to landlords, and the length of time expected to sublease excess space. Final amounts could differ from current estimates if the Company is unable to continue to sublet office space that is not occupied by the Company on the estimated terms. Except for estimated sublease losses and other facility closing costs and equipment leases, the restructuring plans have been substantially completed.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q 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 regarding industry prospects and our results of operations or financial position, may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. The important factors discussed below under the caption "Risk Factors," among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. Such forward-looking statements represent management's current expectations and are inherently uncertain. Investors are warned that actual results may differ from management's expectations.

Overview

We are a leading worldwide provider of business intelligence software that enables companies to analyze the raw data stored across their enterprise to reveal the trends and insights needed to develop solutions to manage their business more effectively. Our software delivers this critical information to workgroups, the enterprise and extranet communities via e-mail, web, fax, wireless and voice communication channels. Businesses can use our software platform to develop user-friendly solutions, proactively refine revenue-generating strategies, enhance cost-efficiency and productivity and improve customer relationships.

The MicroStrategy software platform enables users to query and analyze the most detailed, transaction-level databases, turning data into business intelligence and delivering boardroom quality reports and alerts about the users' business processes. Our web-based architecture provides reporting, security, performance and standards that are critical for web deployment. With intranet deployments, our products provide employees with information to enable them to make better, more cost-effective business decisions. With extranet deployments, enterprises can use the MicroStrategy software platform to build stronger relationships by linking customers and suppliers via the Internet. We also offer a comprehensive set of consulting, education, technical support and technical advisory services for our customers and strategic partners.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. MicroStrategy does not have any ownership interest in any special purpose entities that are not wholly-owned and consolidated subsidiaries of MicroStrategy. Additionally, MicroStrategy does not have any material related party transactions as defined under SFAS No. 57, "Related Party Disclosures."

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and equity and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates, particularly estimates relating to revenue recognition, restructuring and impairment charges, and litigation and contingencies, have a material impact on our financial statements and are discussed in detail throughout our analysis of the results of operations as discussed below.

In addition to evaluating estimates relating to the items discussed above, we also consider other estimates, including, but not limited to, those related to our allowance for doubtful accounts, software development costs, various accrued expenses, and income taxes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets, liabilities and equity that are not readily apparent from other sources. Actual results and outcomes could differ from these estimates and

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assumptions. For a more detailed explanation of the judgments made in these areas and a discussion of our accounting policies, refer to "Critical Accounting Policies" included in Item 7 and "Summary of Significant Accounting Policies" (Note 2) included in Item 15 of our Annual Report on Form 10-K for the year ended December 31, 2004. Since December 31, 2004, there have been no significant changes to our critical accounting policies.

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:

	Three Months Ended March 31,	
	2005	2004
Statements of Operations Data		
Revenues:		
Product licenses	36.4%	38.3%
Product support and other services	63.6	61.7
Total revenues	100.0	100.0
Cost of revenues:		
Product licenses	2.1	1.7
Product support and other services	12.4	14.1
Total cost of revenues	14.5	15.8
Gross profit	85.5	84.2
Operating expenses:		
Sales and marketing	28.7	33.4
Research and development	12.0	13.7
General and administrative	13.9	16.2
Amortization of intangible assets	—	—
Total operating expenses	54.6	63.3
Income from operations	30.9	20.9
Financing and other income:		
Interest income	1.5	0.2
Interest expense	—	—
Gain on investments	—	—
Other income, net	0.4	1.6
Total financing and other income	1.9	1.8
Income before income taxes	32.8	22.7
Provision for income taxes	7.6	1.6
Net income	25.2%	21.1%

Comparison of the three months ended March 31, 2005 and 2004

Revenues

Revenues. Total revenues consist of revenues derived from sales of product licenses and product support and other services, including technical support, education and consulting services.

The following table sets forth revenues (in thousands) and percentage changes in revenues for the periods indicated:

	Three Months Ended March 31,		
	2005	2004	% Change
Revenues:			
Product licenses	$21,811	$18,811	15.9%
Product support and other services	38,175	30,295	26.0%
Total revenues	$59,986	$49,106	22.2%

Product Licenses Revenues. The increase in product licenses revenues was primarily attributable to an increase in the volume of transactions, an increase in the number of product licenses transactions in excess of $500,000, and the impact of favorable foreign currency fluctuations as described further below. During the first quarter of 2005, we closed 395 license transactions as compared to 297 during the first quarter of 2004. Additionally, during the first quarter of 2005, we had seven product licenses transactions in excess of $500,000, including one transaction in excess of $1.0 million. In the same period in 2004, we had three product licenses transactions in excess of $500,000, including one international transaction that generated $3.5 million of product licenses revenues. In addition we introduced Microstrategy 7*i* Universal in June 2004 and Microstrategy 8, the latest version of our software platform, in February 2005. We believe these products have been well received by our customers and industry analysts. Product licenses revenues as a percentage of total revenues were 36.4% and 38.3% for the three months ended March 31, 2005 and 2004, respectively. The average size of our product license transactions and the number of high-dollar transactions may fluctuate on a period-to-period basis. Additionally, product licenses revenues as a percentage of total revenues may fluctuate on a period-to-period basis and may vary significantly from the percentage of total revenues achieved in prior years.

Product Support and Other Services Revenues. The increase in product support and other services revenues was primarily the result of a 28.7% increase in revenues from technical support services and a 16.4% increase in revenues from consulting and education services. Revenues from technical support services have increased as a result of an ongoing increase in our installed base of software licenses under technical support contracts, an increase in the average rate charged for technical support, our high renewal rates for such contracts, an increase in technical support fees from customers that were underlicensed in prior periods, and the impact of favorable foreign currency fluctuations. Revenues from consulting and education services have increased along with the overall increase in revenues as new and existing customers seek support services for their use of MicroStrategy software. Additionally, fluctuations in foreign currencies have positively influenced revenues from consulting and education services. Product support and other services revenues as a percentage of total revenues were 63.6% and 61.7% for the three months ended March 31, 2005 and 2004, respectively. As a result of possible fluctuations in product licenses revenues discussed above, product support and other services revenues as a percentage of total revenues may fluctuate on a period-to-period basis and may vary significantly from the percentage of total revenues achieved in prior years.

International Revenues. International revenues are included in the amounts discussed above for product licenses and product support and other services revenues and are discussed separately within this paragraph.

The following table sets forth international revenues (in thousands) and percentage changes in international revenues for the periods indicated:

	Three Months Ended March 31,		
	2005	2004	% Change
International revenues:			
Product licenses	$10,821	$10,069	7.5%
Product support and other services	14,619	10,909	34.0%
Total international revenues	$25,440	$20,978	21.3%

The increase in international product licenses revenues was primarily the result of a 2.3% increase in revenues, after adjusting for foreign currency fluctuations, and a 5.2% positive foreign currency impact. Although the average size of our international product licenses transactions decreased in the first quarter of 2005, as compared to the same period in 2004, the number of transactions increased. In addition, the first quarter of 2004 included one transaction that generated $3.5 million in product licenses revenues.

International product support and other services revenues increased as a result of a 28.3% increase in revenues, after adjusting for foreign currency fluctuations, and a 5.7% positive foreign currency impact. The increase was attributable to a 31.6% increase in revenues from technical support services and a 21.0% increase in revenues from consulting and education services. As a percentage of total revenues, international revenues were 42.4% and 42.7% for the three months ended March 31, 2005 and 2004, respectively. Foreign currency impacts generally fluctuate over time, and accordingly, the same volume of license transactions and support services in a future period may result in lower reported earnings if future foreign currency impacts are less favorable than those experienced in previous periods. We anticipate that international revenues will continue to account for a significant portion of total revenues, and management expects to continue to commit significant time and financial resources to the maintenance and ongoing development of direct and indirect international sales and support channels.

Costs and Expenses

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

	Three Months Ended March 31,		
	2005	**2004**	**% Change**
Cost of Revenues:			
Product licenses	$ 1,277	$ 844	51.3%
Product support and other services	7,416	6,911	7.3%
Total cost of revenues	$ 8,693	$ 7,755	12.1%

Cost of Product Licenses Revenues. Cost of product licenses revenues consists primarily of the costs of domestic amortization of capitalized software development costs, product manuals, media, and royalties paid to third-party software vendors. Amortization of domestic capitalized software development costs was $888,000 and $560,000 during the three months ended March 31, 2005 and 2004, respectively. As a percentage of product licenses revenues, cost of product licenses revenues was 5.9% and 4.5% for the three months ended March 31, 2005 and 2004, respectively. The increase in cost of product licenses revenues in the first quarter of 2005, as compared to the first quarter of 2004, was primarily due to an increase in amortization of capitalized software development costs related to the release of Microstrategy 7*i* Universal in June 2004 and MicroStrategy 8 in February 2005. Our cost of product licenses revenues could increase further with the development and addition of new products to our product line.

Cost of Product Support and Other Services. Cost of product support and other services consists of the costs of providing consulting services to customers and partners, technical advisory services, technical support and education. Cost of product support and other services as a percentage of product support and other services revenues was 19.4% and 22.8% for the three months ended March 31, 2005 and 2004, respectively. The decrease in cost of product support and other services as a percentage of product support and other services revenues was attributable to the growth of technical support services revenues at a rate of 28.7% while the related costs to perform these services only increased at a rate of 2.7%. The overall increase in cost of product support and other services was primarily due to a 6.3% increase in staffing levels of our product support and other services personnel, which included 239 employees worldwide as of March 31, 2005, and a 1.9% unfavorable foreign currency effect.

The following table sets forth operating expenses (in thousands) and percentage changes in operating expenses for the periods indicated:

	Three Months Ended March 31,		
	2005	2004	% Change
Operating expenses:			
Sales and marketing	$17,234	$16,406	5.0%
Research and development	7,218	6,730	7.3%
General and administrative	8,352	7,953	5.0%
Amortization of intangible assets	18	18	—
Total operating expenses	$32,822	$31,107	5.5%

Sales and Marketing Expenses. Sales and marketing expenses include personnel costs, commissions, bonuses, and costs of office facilities, travel, advertising, public relations programs and promotional events, such as trade shows, seminars and technical conferences. As a percentage of total revenues, sales and marketing expenses declined to 28.7% from 33.4% for the three months ended March 31, 2005 and 2004, respectively, as a result of revenues increasing at a higher rate than sales and marketing expenses. The increase in sales and marketing expenses in the first quarter of 2005, as compared to the same period in 2004, related to a 3.0% increase in costs and a 2.0% unfavorable impact from foreign currency fluctuations. Staffing levels for our sales and marketing personnel, which included 304 employees worldwide as of March 31, 2005, increased by approximately 9.4% in the first quarter of 2005, as compared to the first quarter of 2004. Sales and marketing expenses may continue to increase in 2005 if we continue to expand our sales force, and if we expand our product and service marketing programs.

Research and Development Expenses. Research and development expenses consist primarily of salaries and benefits of software engineering personnel, depreciation of equipment and other related costs. As a percentage of total revenues, research and development expenses declined to 12.0% in the first quarter of 2005 from 13.7% in the first quarter of 2004, as a result of total revenues growing at a higher rate than our research and development expenses.

The following table summarizes research and development expenses and amortization of capitalized software development costs activity for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2005	2004
Gross research and development expenses:		
Core research and development activities	$ 7,734	$ 6,736
Non-core research and development activities	410	412
Capitalized software development costs	(926)	(418)
Research and development expenses	$ 7,218	$ 6,730
Amortization of capitalized software development costs included in cost of product licenses revenues	$ 888	$ 560

The increase in gross research and development expenses in the first quarter of 2005, as compared to the first quarter of 2004, was due primarily to increased staffing levels of our research and development personnel and higher variable incentive compensation costs. Staffing levels of our research and development personnel, which included 215 employees as of March 31, 2005, increased by approximately 7.7% in the first quarter of 2005, as compared to the first quarter of 2004. The increase in research and development expenses was partially offset by a $508,000 increase in capitalized software development costs.

During the three months ended March 31, 2005, in accordance with SFAS No. 86, "Accounting for the Costs of Computer Equipment to be Sold, Leased, or Otherwise Marketed," we capitalized $926,000 of software development costs associated with the development of Microstrategy 8, the latest version of our software platform. In February 2005, we released Microstrategy 8 for general availability and ceased capitalizing software development costs associated with this product. We capitalized $418,000 of software development costs related to Microstrategy 7i Universal during the three months ended March 31, 2004. Software development costs for a product are capitalized from the time that technological feasibility is reached until the general release of that product. We consider technological feasibility to be achieved when a product design and working model of the software product have been completed. These capitalized software costs are amortized over their respective useful lives of approximately three years.

As of March 31, 2005, our research and development engineering resources were allocated to the following major projects: 57% to our Microstrategy 8 product, 13% to our MicroStrategy 7*i* product, 7% to our non-core business units, Angel.com and Alarm.com, and 23% to on-going support of existing products and other research and development efforts. The allocation of our research and development resources is expected to change as project development efforts require, as current projects are completed and as new projects commence.

General and Administrative Expenses. General and administrative expenses include personnel and other costs of our finance, legal, human resources, information systems, administrative and executive departments as well as third-party consulting, legal and other professional fees. The increase in general and administrative expenses in the first quarter of 2005, as compared to the same period in 2004, was the result of a 4.2% increase in costs and a 0.8% unfavorable foreign currency impact. The increase in costs was due to a 19.6% increase in staffing levels of our general and administrative personnel, which included 180 employees worldwide as of March 31, 2005, partially offset by a decline in other costs. As a percentage of total revenues, general and administrative expenses declined to 13.9% from 16.2% for the three months ended March 31, 2005 and 2004, respectively, as a result of revenues increasing at a higher rate than general and administrative expenses.

Interest Income. Interest income increased from $115,000 during the first quarter of 2004 to $872,000 for the first quarter of 2005, primarily due to the increase in cash and investment balances.

Other Income, net. Other income, net includes gains and losses on foreign currency transactions primarily resulting from the strengthening of the British pound sterling and the Euro against the U.S. dollar, and the minority interest in our Alarm.com subsidiary.

Provision for income taxes. As of June 30, 2004, our U.S. and Canadian net operating losses ("NOLs") and other deferred tax assets were fully offset by a valuation allowance primarily because, at the time, pursuant to SFAS No. 109, "Accounting for Income Taxes", we did not have sufficient history of taxable income to conclude that it was more likely than not that we would be able to realize the tax benefits of those deferred tax assets. Based upon our cumulative operating results through September 30, 2004 and an assessment of our expected future results of operations, during the third quarter of 2004, we determined that it is more likely than not that we would be able to realize a substantial portion of our U.S. and Canadian net operating loss carryforward tax assets prior to their expiration and other deferred tax assets. As a result, during the third and fourth quarters of 2004, we released a total of $129.2 million of our U.S. and Canadian deferred tax asset valuation allowance. Of the $129.2 million, $107.4 million of the valuation release was recorded as an income tax benefit in our statement of operations, and $21.8 million of the valuation release was attributable to stock option exercises, which was recorded as an increase in additional paid-in capital on the balance sheet.

In determining our net deferred tax assets and valuation allowances, management is required to make judgments and estimates related to projections of domestic and foreign profitability, the timing and extent of the utilization of net operating loss carryforwards, applicable tax rates, transfer pricing methodologies and prudent and feasible tax planning strategies. Judgments and estimates related to our projections and assumptions are inherently uncertain; therefore, actual results could differ materially from our projections.

The timing and manner in which we will utilize the net operating loss carryforwards, research and development tax credit carryforward tax assets, alternative minimum tax credit carryforward tax assets, and foreign tax credit carryforward tax assets in any year, or in total, may be limited by provisions of the Internal Revenue Code regarding changes in our ownership. Currently, we expect to use the tax assets subject to Internal Revenue Code limitations within the carryforward period.

As required under Accounting Principles Board ("APB") Opinion No. 28, "Interim Financial Reporting", we have estimated our annual effective tax rate for the full fiscal year 2005 and applied that rate to our income before income taxes in determining its provision for income taxes for the interim period. Accordingly, for the three-month period ended March 31, 2005, the consolidated annualized effective tax rate was approximately 23%. Our provision for income taxes during the three months ended March 31, 2005 was $4.6 million, as compared to $772,000 during the three months ended March 31, 2004. The increase is primarily related to recognition of tax expense during the first quarter of 2005 related to the utilization of our net operating loss tax assets, whereas during the first quarter of 2004, our net operating loss tax assets were fully offset by a valuation allowance Of the $4.6 million in provision for income taxes for the first quarter of 2005, $3.8 million was related to deferred tax expense.

The determination of our consolidated provision for income taxes, deferred tax assets and liabilities, and the related valuation allowance requires management to make certain judgments and estimates. As a global company with subsidiaries in fifteen countries, we are required to calculate and provide for estimated income tax liabilities for each of the tax jurisdictions in which we operate. This process involves estimating current tax obligations and exposures in each jurisdiction as well as making judgments regarding the future recoverability of deferred tax assets. Changes in the estimated level of annual pre-tax income, changes in tax laws particularly related to the utilization of net operating losses in various jurisdictions, and changes resulting from tax audits can all affect the overall effective income tax rate which, in turn, impacts the overall level of income tax expense and net income.

On October 22, 2004, the American Jobs Creation Act ("AJCA") was signed into law. Among other things, the AJCA includes a temporary incentive for U.S. companies to repatriate accumulated foreign earnings by providing an elective 85% dividends received deduction for certain dividends from controlled foreign corporations. This provision is effective either for 2004 or 2005 for calendar-year taxpayers. The AJCA also includes a qualified manufacturing deduction which may be applicable to software companies such as MicroStrategy. We are currently in the process of analyzing the AJCA and have not made a determination as to whether any actions will be taken as a result of this new law.

Legal Proceedings and Contingencies. We are involved in lawsuits with Business Objects, S.A. and Business Objects Americas, Inc. relating to claims involving patent infringement and other intellectual property claims. The outcome of this litigation is not presently determinable, and as such, we are currently unable to estimate the potential range of gain or loss, if any, relating to these actions. Accordingly, no provision for these matters has been made in the accompanying consolidated financial statements. Additional information regarding these matters is included below under "Risk Factors."

We are also involved in other legal proceedings through the normal course of business. Management believes that any unfavorable outcome related to these other proceedings will not have a material effect on our financial position, results of operations or cash flows.

Accrued Restructuring Costs. During 2001, we adopted restructuring plans which included a strategic decision to focus operations on the business intelligence market, the elimination or reduction of speculative technology initiatives, a reduction of our workforce and a consolidation of our multiple Northern Virginia facilities into a single location in McLean, Virginia.

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The following table sets forth a summary of accrued restructuring costs (in thousands):

	Accrued Restructuring Costs at December 31, 2004	Q1 2005 Cash Payments	Accrued Restructuring Costs at March 31, 2005
Estimated sublease losses and other facility closing costs	$ 3,620	$ (359)	$ 3,261
Terminations of equipment leases	48	(6)	42
Total accrued restructuring costs	$ 3,668	$ (365)	$ 3,303

As of March 31, 2005, unpaid amounts of $1.8 million and $1.6 million have been classified as current and long-term accrued restructuring costs, respectively, in the accompanying consolidated balance sheet. Amounts related to the estimated sublease losses associated with exiting facilities and terminations of equipment leases will be paid over the respective lease terms through February 2009. As a result of the restructuring, we have approximately 77,000 square feet of office space that we do not occupy with the following expiration dates: 46,000 square feet expire in August 2006 and 31,000 square feet expire in February 2009. As of March 31, 2005, we had subleased all 77,000 square feet of office space that we do not occupy. The accrued restructuring costs as of March 31, 2005 of $3.3 million primarily represented losses associated with office space that we do not occupy. As of March 31, 2005, we have $6.2 million in gross lease obligations and $730,000 in related costs, partially offset by $3.6 million in estimated gross sublease income recoveries during the remaining lease terms. We estimate our sublease losses based upon current information available relating to sublease commission costs, sub-tenant concession costs, sublease rental income, lease obligations to landlords, and the length of time expected to sublease excess space. Final amounts could differ from current estimates if we are unable to continue to sublet the office space that we do not occupy on the estimated terms. Except for estimated sublease losses and other facility closing costs and equipment leases, the restructuring plans have been substantially completed.

Deferred Revenue and Advance Payments. Deferred revenue and advance payments primarily represent product support and other services fees that are collected in advance and recognized over the contract service period and product license and product support and other services fees relating to multiple element software arrangements that include future deliverables. Aggregate deferred revenue and advance payments were $53.3 million, net of billed and unpaid deferred revenue, as of March 31, 2005, compared to $45.4 million as of December 31, 2004. The increase in deferred revenue and advance payments was primarily attributable to an ongoing increase in the number and value of technical support contracts associated with product license sales from our new and installed base of software licenses, an increase in the average rate charged for technical support and our high renewal rates of such contracts. Including billed and unpaid deferred revenue, we expect to recognize approximately $77.9 million of deferred revenue and advance payments over the next 12 months; however, the timing and ultimate recognition of our deferred revenue and advance payments depend on our performance of various service obligations, and the amount of deferred revenue and advance payments at any date should not be considered indicative of revenues for any succeeding period.

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

	March 31, 2005	December 31, 2004
Current:		
Deferred product revenue	$ 2,073	$ 5,863
Deferred product support and other services revenue	75,837	76,989
	77,910	82,852
Less: billed and unpaid deferred revenue	(25,905)	(39,178)
	$ 52,005	$ 43,674
Non-current:		
Deferred product revenue	$ 330	$ 290
Deferred product support and other services revenue	2,231	1,979
	2,561	2,269
Less: billed and unpaid deferred revenue	(1,247)	(588)
	$ 1,314	$ 1,681

We offset our accounts receivable and deferred revenue for any billed and unpaid items included in deferred revenue and advance payments.

Also during the three months ended March 31, 2005, we entered into certain agreements that include future commitments by our customers to purchase products, product support or other services over multi-year periods. Revenue relating to such future commitments by our customers is not included in our deferred revenue balances as of March 31, 2005 and December 31, 2004, respectively. We do not expect that the revenue from the multi-year arrangements entered into in the three months ended March 31, 2005 will constitute a substantial percentage of our projected total revenue in future periods. Revenue relating to such agreements will be recognized during the period in which all revenue recognition criteria are met. The timing and ultimate recognition of any revenue from such customer purchase commitments depend on our customers' meeting their future purchase commitments and our meeting our performance obligations related to those purchase commitments.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash, cash equivalents, short-term investments, and on-going collection of our accounts receivable. On March 31, 2005 and December 31, 2004, we had $158.0 million and $132.5 million, respectively, in cash, cash equivalents, and short-term and long-term investments. On March 31, 2005 and December 31, 2004, we had $27.9 million and $40.9 million of accounts receivable, respectively.

On March 15, 2005, we terminated our revolving line of credit. On the same date, we entered into a security agreement with a bank under which we posted $5.1 million in cash to secure existing letters of credit issued by the bank in our favor. These letters of credit are used as security deposits for certain of our office leases including the office lease for our corporate headquarters. Under the security agreement, we may invest the $5.1 million of cash collateral in certain permitted investments. As of March 31, 2005, $4.9 million of the $5.1 million of cash collateral is invested in short-term U.S. Treasury bills.

On July 27, 2004, we announced that our Board of Directors had authorized the repurchase of up to an aggregate of $35.0 million of our class A common stock from time to time in the open market or in privately negotiated transactions (the "Share Repurchase Program"). On April 26, 2005, the Board of Directors modified the Share Repurchase Program to increase, from $35.0 million to $130.0 million, the aggregate amount of class A common stock that we are authorized to repurchase. The Share Repurchase Program will be funded using our working capital and may be suspended or discontinued at any time.

The following are our contractual obligations associated with our restructuring plans and lease commitments for the periods indicated (in thousands):

	Twelve months ending March 31,						
	2006	2007	2008	2009	2010	Thereafter	Total
Restructuring-related obligations, net (1)	$ 1,750	$ 824	$ 386	$ 343	$ —	$ —	$ 3,303
Operating leases	10,534	9,113	8,088	7,570	7,196	3,649	46,150
Total contractual cash obligations	$12,284	$9,937	$8,474	$7,913	$7,196	$ 3,649	$49,453

(1) Restructuring-related lease obligations include estimated related costs associated with marketing office space that we do not occupy for sublease of $730,000 and are reflected net of estimated sublease income recoveries of $3.6 million. Total gross restructuring-related lease obligations are $6.2 million. We may incur additional charges and expend more cash than currently expected if we are unable to sublet office space that we do not occupy on the estimated terms.

Operating Activities

Net cash provided by operating activities was $30.5 million and $25.1 million for the three months ended March 31, 2005 and 2004, respectively. The increase in cash provided by operating activities was primarily attributable to an improvement in operating results, a reduction in accounts receivable resulting from improved cash collections from customers and an increase in deferred revenue balances, partially offset by a reduction in accounts payable, accrued expenses and accrued compensation.

Investing Activities

Net cash used in investing activities was $36.8 million and $2.4 million for the three months ended March 31, 2005 and 2004, respectively. The increase in net cash used in investing activities during the first quarter of 2005 was attributable to purchases of short-term investments of $49.3 million, an increase in capitalized software development costs of $508,000, and an increase in restricted cash and investments of $5.1 million used to secure letters of credit, as noted above. This increase was offset by proceeds received from the maturities of short-term investments of $19.0 million, and a decrease in capital expenditures. We expect to continue to invest in different classes of short-term and long-term investments and property and equipment to appropriately support our future growth and to continue to maintain and enhance our current infrastructure.

Financing Activities

Net cash provided by financing activities was $2.4 million and $1.9 million for the three months ended March 31, 2005 and 2004, respectively. The change was attributable to an increase in proceeds from the sale of our class A common stock under our employee stock purchase plan and the exercise of employee stock options.

Off-balance Sheet Arrangements

We did not enter into any off-balance sheet arrangements during the three months ended March 31, 2005 and 2004, respectively. As such, off-balance sheet arrangements have had no impact on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Management believes that existing cash and cash anticipated to be generated internally by operations will be sufficient to meet working capital requirements and anticipated capital expenditures for at least the next twelve months. Based upon our cash position, we do not currently expect to borrow money to finance our operations. Our liquidity and capital resources and ability to generate revenues are subject to various business and economic risks discussed below under “Risk Factors.”

Recent Accounting Standards

In May 2005, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. 47 ("FIN 47"), "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143." FIN 47 requires asset retirement obligations to be recorded when a legal obligation exists even though the timing and/or method of the settlement of such obligations is conditional on a future event. We do not believe that adoption of FIN 47 will have a material impact on our financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised) ("SFAS No. 123R"), "Share-Based Payment". SFAS No. 123R eliminates the intrinsic value method under APB 25 as an alternative method of accounting for stock-based awards. SFAS No. 123R also revises the fair value-based method of accounting for share-based payment liabilities, forfeitures and modifications of stock-based awards and clarifies the guidance of SFAS No. 123, "Accounting for Stock-based Compensation," in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to reporting periods. In addition, SFAS No. 123R amends SFAS No. 95, "Statement of Cash Flows," to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid, which is included within operating cash flows. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB No. 107"), which provides guidance for the implementation of SFAS No. 123R, including guidance related to share-based payment transactions with nonemployees, valuation methods, the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, and the accounting for income tax effects of share-based payment arrangements under SFAS No. 123R.

In April 2005, the SEC delayed the implementation date for SFAS No. 123R until an issuer's first annual period that begins after June 15, 2005. Therefore, we are required to adopt SFAS No. 123R effective January 1, 2006, using one of three implementation alternatives specified under SFAS No. 123R. We anticipate that the adoption of SFAS No. 123R will have a significant impact on our financial statements. We are currently in the process of determining which implementation alternative to use and what the expected financial impact of SFAS No. 123R may be.

In October 2004, the American Jobs Creation Act of 2004 (the "AJCA") was signed into law in the United States. Among other things, the AJCA includes a temporary incentive for U.S. companies to repatriate accumulated foreign earnings by providing an elective 85% dividends received deduction for certain dividends from controlled foreign corporations. This provision is effective either for 2004 or 2005 for calendar-year taxpayers. The AJCA also includes a qualified manufacturing deduction which may be applicable to software companies such as MicroStrategy.

In December 2004, the FASB issued Staff Position No. 109-1 ("FSP No. 109-1"), "Application of FASB Statement No. 109, "Accounting for Income Taxes," to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" and Staff Position No. 109-2 ("FSP No. 109-2"), "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004."

Under FSP No. 109-1, the FASB determined that any benefit from the tax deduction on qualified production activities taken under the AJCA should be reported in the period in which the deduction is claimed on the tax return. The deduction should be considered when determining the effective annual tax rate used for interim financial reporting and, if significant, should be disclosed separately in the effective tax rate reconciliation.

Under FSP No. 109-2, the FASB determined that a deferred tax liability must be recognized for the tax effect of the excess of book basis over tax basis of an investment in a foreign subsidiary or foreign corporate joint venture that is permanent in duration, unless an enterprise affirmatively asserts that the such amounts are indefinitely reinvested outside of the enterprise's home tax jurisdiction. Although SFAS No. 109 requires that the effects of changes in tax laws be reflected in the period of enactment, because of the proximity of the AJCA's enactment date to the end of the fiscal year for many companies and the complexity of many of the AJCA's provisions, the FASB provided companies with an exception to SFAS No. 109's requirements by providing them additional time to determine the amount of earnings, if any, that they intend to repatriate under the AJCA's beneficial provisions. However, if it is determined that an amount of earnings will be repatriated, the associated tax liability must be recognized in that period.

We are currently in the process of analyzing the AJCA and have not made a determination as to whether any actions will be taken as a result of this new law. The AJCA, FSP No. 109-1, and FSP No. 109-2 did not have a material impact on our financial condition or results of operations during the three months ended March 31, 2005.

Risk Factors

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

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

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

We generated net income for each of the fiscal year ended December 31, 2004 and the three months ended March 31, 2005; however, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future. As of March 31, 2005, our accumulated deficit was $162.5 million. If operating expenses exceed our expectations or cannot be adjusted accordingly or revenues fall below our expectations, our business, results of operations and financial condition may be materially and adversely affected. We have significant deferred tax assets, and if we are unable to sustain profitability, we may be required to establish a valuation allowance against these deferred tax assets, which would result in a charge that would adversely affect net income in the period in which the charge is incurred.

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

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

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

- the size, timing, volume and execution of significant orders and shipments;
- the mix of products and services of customer orders, which can affect whether we recognize revenue upon the signing and delivery of our software products or whether revenue must be recognized as work progresses or over the entire contract period;
- the timing of new product announcements;
- changes in our pricing policies or those of our competitors;

- market acceptance of business intelligence 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 adding to our indirect distribution channels;
- utilization of our consulting personnel, which can be affected by delays or deferrals of customer implementation of our software products and consulting, education and support services;
- changes in foreign currency exchange rates, which had a favorable impact on our results for the three months ended March 31, 2005;
- our profitability and expectations for future profitability and its effect on our deferred tax assets and net income for the period in which any adjustment to our net deferred tax asset valuation allowance may be made; and
- seasonal factors, such as our traditionally lower pace of new sales in the summer.

Limited Ability to Adjust Expenses. We base our operating expense budgets on expected revenue trends. Many of our expenses, such as office leases and certain personnel costs, are relatively fixed. We may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall. Accordingly, any shortfall in revenue may cause significant variation in operating results in any quarter.

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

We use strategic channel partners and if we are unable to maintain successful relationships with them, our business, operating results and financial condition could be materially adversely affected

In addition to our direct sales force, we use strategic channel partners such as value-added resellers, system integrators and original equipment manufacturers to license and support our products in the United States and internationally. For the three months ended March 31, 2005 and the years ended December 31, 2004, 2003 and 2002, channel partners accounted for, directly or indirectly, approximately 33.7%, 19.3%, 24.6% and 27.3% of our total product licenses revenues, respectively. Our channel partners generally offer customers the products of several different companies, including some products that compete with ours. Although we believe that direct sales will continue to account for a majority of product license revenues, we seek to maintain a significant level of indirect sales activities through our strategic channel partners; however, we may not be successful in those efforts. Our ability to achieve revenue growth in the future will depend in part on our success in maintaining successful relationships with those strategic partners. If we are unable to maintain our relationships with these strategic partners, our business, operating results and financial condition could be materially adversely affected.

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

Our current and long-term deferred revenue and advance payments were $53.3 million as of March 31, 2005. The timing and ultimate recognition of our deferred revenue and advance payments depend on our performance of various service obligations. Because of the possibility of customer changes in development schedules, delays in implementation and development efforts and the need to satisfactorily perform product support services, deferred revenue and advance payments at any particular date may not be representative of actual revenue for any succeeding period.

Managing our international operations is complex and our failure to do so successfully or in a cost-effective manner would have a material adverse effect on our business, operating results and financial condition

International sales accounted for 42.4% and 42.7% of our total revenues for the three months ended March 31, 2005 and 2004, respectively. Our international operations require significant management attention and financial resources.

There are certain risks inherent in our international business activities including:

- changes in foreign currency exchange rates;
- 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 in other countries;
- economic weakness or currency related crises that may arise in different countries or geographic regions; 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, on our business, operating results and financial condition.

We may lose sales, or sales may be delayed, due to the long sales and implementation cycles for our products, which would reduce our revenues

To date, our customers have typically invested substantial time, money and other resources and involved many people in the decision to license our software products and purchase our consulting and other services. As a result, we may wait nine months or more after the first contact with a customer for that customer to place an order while it seeks internal approval for the purchase of our products and/or services. During this long sales cycle, 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.

Even after an order is placed, the time it takes to deploy our products and complete consulting engagements can vary widely from one customer to the next. Implementing our product can sometimes last several months, depending on the customer’s needs, and may begin only with a pilot program. It may be difficult to deploy our products if the customer has complicated deployment requirements, which typically involve integrating databases, hardware and software from different vendors. If a customer hires a third party to deploy our products, we cannot be sure that our products will be deployed successfully.

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

The markets for business intelligence software, analytical applications and information delivery are intensely competitive and subject to rapidly changing technology. In addition, many companies in these markets are offering, or may soon offer, products and services that may compete with MicroStrategy products.

MicroStrategy faces competitors in several broad categories, including business intelligence software, analytical processes, query and web-based reporting tools, and report delivery. Our competitors that are primarily focused on business intelligence products include Actuate, Business Objects, Cognos, Hyperion Solutions, Information Builders and the SAS Institute. We also compete with large software corporations, including suppliers of enterprise resource planning software that provide one or more capabilities competitive with our products, including IBM, Microsoft, Oracle, SAP AG and Siebel Systems.

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 business intelligence industry. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of their products than we can. Increased competition may lead to price cuts, reduced gross margins and loss of market share. We may not be able to compete successfully against current and future competitors and the failure to meet the competitive pressures we face may have a material adverse effect on our business, operating results and financial condition.

Current and future competitors may also make strategic acquisitions or establish cooperative relationships among themselves or with others. By doing so, they may increase their ability to meet the needs of our potential customers. Our current or prospective indirect channel partners may establish cooperative relationships with our current or future competitors. These relationships may limit our ability to sell our products through specific distribution channels. Accordingly, new competitors or alliances among current and future competitors may emerge and rapidly gain significant market share. These developments could limit our ability to obtain revenues from new customers and to maintain technical support revenues from our installed customer base.

Our inability to develop and release product enhancements and new products to respond to rapid technological change in a timely and cost-effective manner would have a material adverse effect on our business, operating results and financial condition

The market for our products is characterized by rapid technological change, frequent new product introductions and enhancements, changing customer demands and evolving industry standards. The introduction of products embodying new technologies can quickly make existing products obsolete and unmarketable. We believe that our future success depends largely on three factors:

- our ability to continue to support a number of popular operating systems and databases;
- our ability to maintain and improve our current product line; and
- our ability to rapidly develop new products that achieve market acceptance, maintain technological competitiveness and meet an expanding range of customer requirements.

Business intelligence applications 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. 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 or new customer requirements, nor can we be sure that any new products and product enhancements will achieve market acceptance.

The emergence of new industry standards may adversely affect our ability to market our existing products

The emergence of new industry standards in related fields may adversely affect the demand for our existing products. This could happen, for example, if new web standards and technologies emerged that were incompatible with customer deployments of our products. Although the core database component of our business intelligence solutions is compatible with nearly all major enterprise server hardware and operating system combinations, such as OS/390, AS/400, Unix, Linux and Windows, certain of our application server components run only on the Windows Server 2000 and Server 2003, Solaris, and AIX operating systems. Therefore, our ability to increase sales currently depends in part on the continued acceptance of these operating systems and in part on our ability to port certain components of our software to additional operating systems.

The nature of our products makes them particularly vulnerable to undetected errors, or bugs, which could cause problems with how the products perform and which could in turn reduce demand for our products, reduce our revenue and lead to product liability claims against us

Software products as complex as ours may contain errors or defects. Although we test our products extensively, we have in the past discovered software errors in new products after their introduction. Despite testing by us and by our current and potential customers, errors may 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 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.

If we are unable to recruit or retain skilled personnel, or if we lose the services of any of our key management personnel, our business, operating results and financial condition would be materially adversely affected

Our future success depends on our continuing ability to attract, train, assimilate and retain highly skilled personnel. Competition for these employees is intense. We may not be able to retain our current key employees or attract, train, assimilate or retain other highly skilled personnel in the future. Our future success also depends in large part on the continued service of key management personnel, particularly Michael J. Saylor, our Chairman, President and Chief Executive Officer, and Sanju K. Bansal, our Vice Chairman, Executive Vice President and Chief Operating Officer. If we lose the services of one or both of these individuals or other key personnel, or if we are unable to attract, train, assimilate and retain the highly skilled personnel we need, our business, operating results and financial condition could be materially adversely affected.

Because of the rights of our two classes of common stock, and because we are controlled by our existing holders of class B common stock, these stockholders could transfer control of MicroStrategy to a third party without anyone else's approval or prevent a third party from acquiring MicroStrategy

We have two classes of common stock: class A common stock and class B common stock. Holders of our class A common stock generally have the same rights as holders of our class B common stock, except that holders of class A common stock have one vote per share while holders of class B common stock have ten votes per share. As of May 1, 2005, holders of our class B common stock owned 3,394,399 shares of class B common stock, or 72.5% of the total voting power. Michael J. Saylor, our Chairman, President, and Chief Executive Officer, beneficially owned 882 shares of class A common stock and 2,849,700 shares of class B common stock, or 61.2% of the total voting power, as of May 1, 2005. Accordingly, Mr. Saylor is able to control MicroStrategy through his ability to determine the outcome of elections of our directors, amend our certificate of incorporation and by-laws and take other actions requiring the vote or consent of stockholders, including mergers, going-private transactions and other extraordinary transactions and their terms.

Our certificate of incorporation allows holders of class B common stock, almost all of whom are current employees or former employees of our company or related parties, to transfer shares of class B common stock, subject to the approval of stockholders possessing a majority of the outstanding class B common stock. Mr. Saylor or a group of stockholders possessing a majority of the outstanding class B common stock could, without 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, operating results and financial condition. Mr. Saylor or a group of stockholders possessing a majority of the outstanding class B common stock will also be able to prevent a change of control of MicroStrategy, regardless of whether holders of class A common stock might otherwise receive a premium for their shares over the then current market price.

We have only limited protection for our proprietary rights in our software, which makes it difficult to prevent third parties from infringing upon our rights

We rely primarily on a combination of copyright, patent, 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. 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.

Our products may be susceptible to claims by other companies that our products infringe upon their proprietary rights, which could adversely affect our business, operating results and financial condition

As the number of software products in our target markets increases and the functionality of these products further overlaps, we may become increasingly subject to claims by a third party that our technology infringes such party's proprietary rights. Regardless of their merit, any such claims could 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 infringement against us and our inability to license the infringed or similar technology could have a material adverse effect on our business, operating results and financial condition.

On October 2, 2001, we filed a lawsuit in the Virginia Circuit Court for Fairfax County against two field employees of Business Objects, S.A. This lawsuit alleged that these employees, who previously worked for us, breached their fiduciary and contractual obligations to us by, among other things, misappropriating our trade secrets and confidential information and soliciting our employees and customers. The complaint sought injunctive relief and monetary damages. On October 17, 2001, Business Objects filed suit against us in the United States District Court for the Northern District of California, claiming that our software infringes a patent issued to Business Objects relating to relational database access (the '403 patent). The suit sought injunctive relief and monetary damages. On August 29, 2003, the Court granted our motion for summary judgment and dismissed the lawsuit, ruling as a matter of law that our products do not infringe the '403 patent. Business Objects filed an appeal to the United States Court of Appeals for the Federal Circuit. The Federal Circuit heard oral arguments on September 9, 2004. On January 6, 2005, the Federal Circuit ruled that the district court had correctly construed the patent, that we do not literally infringe any of the asserted patent claims, and that Business Objects is legally barred from claiming that our products infringe two of the three asserted claims under the doctrine of equivalents. As a result of the Federal Circuit's ruling, the case has been remanded to the district court for further proceedings limited solely to Business Objects' one remaining patent claim, and limited solely to the doctrine of equivalents. The Federal Circuit also reinstated all of our non-infringement and invalidity counterclaims brought against Business Objects that the district court had not needed to address or decide.

On October 31, 2001, we filed suit against Business Objects, S.A. and its subsidiary, Business Objects Americas, Inc., in the United States District Court for the Eastern District of Virginia, claiming that Business Objects' software infringes two patents held by us relating to asynchronous control of report generation using a web browser (the '033 patent) and a system and method of adapting automatic output of OLAP reports to disparate user output devices (the '050 patent). The complaint sought monetary damages and injunctive relief. On March 13, 2002, we voluntarily dismissed without prejudice our lawsuit pending in the Virginia Circuit Court for Fairfax County against the two field employees of Business Objects. The complaint against Business Objects was amended to add claims for violations of the federal Computer Fraud and Abuse Act, misappropriation of trade secrets, tortious interference with contractual relations and violations of the Virginia Conspiracy Act. As a result of pre-trial rulings, certain of these claims were dismissed. Our claims for tortious interference and misappropriation of trade secrets proceeded to trial on October 20, 2003. On October 28, 2003, the Court dismissed the tortious interference claim. In July 2003, the United States Patent & Trademark Office confirmed the validity of all the claims in the '033 and '050 patents and terminated reexamination proceedings that Business Objects had requested as to those patents. We agreed to dismissal of the '033 patent claims without prejudice. On June 8, 2004, the Court advised the parties that it intended to issue an order and opinion granting Business Objects' motion for summary judgment of non-infringement on our '050 patent claims, and that the trial of the '050 patent claims previously scheduled to begin on June 15, 2004 would not occur. On August 6, 2004, the Court granted Business Objects' motion for summary judgment on the '050 patent claims, ruling that Business Objects had not infringed the Company's patent. The Court ruled in our favor on our claims of trade secret misappropriation, finding that Business Objects had misappropriated certain of our trade secrets. On September 7, 2004, we filed a notice of appeal to the United States Court of Appeals for the Federal Circuit. Business Objects did not file a cross appeal. We filed our opening appeal brief on January 7, 2005. Business Objects filed its opposition brief on March 22, 2005. We filed our reply brief on April 8, 2005. In addition, on December 3, 2004, the district court denied our motion for costs and Business Objects' motion for fees and costs. Each party appealed this ruling by filing a notice of appeal to the Federal Circuit on January 3, 2005. On January 27, 2005, the parties filed a joint motion to stay these appeals regarding fees and costs pending the outcome of the merits appeal. This motion to stay was granted on March 9, 2005.

On December 10, 2003, we filed a complaint for patent infringement against Crystal Decisions, Inc. in the United States District Court for the District of Delaware. The lawsuit alleges that Crystal Decisions willfully infringes three patents issued to us relating to: (i) asynchronous control of report generation using a web browser (the '033 patent); (ii) management of an automatic OLAP report broadcast system (the '796 patent); and (iii) providing business intelligence web content with reduced client-side processing (the '432 patent). We are seeking monetary damages and injunctive relief. Following the filing of the complaint, Crystal Decisions was acquired by Business Objects Americas, Inc. Business Objects Americas, Inc. has answered the complaint, denying infringement and seeking a declaration that the patents in suit are invalid and not infringed by Business Objects Americas, Inc. Discovery has begun and trial is scheduled for May 2006.

The outcome of the legal proceedings described above is uncertain.

If the market for business intelligence software fails to grow as we expect, or if businesses fail to adopt our products, our business, operating results and financial condition would be materially adversely affected

Nearly all of our revenues to date have come from sales of business intelligence software and related technical support, consulting and education services. We expect these sales to account for a large portion of our revenues for the foreseeable future. Although demand for business intelligence software has grown in recent years, the market for business intelligence software applications is still emerging. Resistance from consumer and privacy groups to increased commercial collection and use of data on spending patterns and other personal behavior and European Union restrictions on the collection and use of personal data may impair the further growth of this market, as may other developments. We cannot be sure that this market will continue to grow or, even if it does grow, that businesses will adopt our solutions. We have spent, and intend to keep spending, considerable resources to educate potential customers about business intelligence software in general 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.

The price of our stock may be extremely volatile

The market price for our class A common stock has historically been volatile and could fluctuate significantly for any of the following reasons:

- quarter-to-quarter variations in our operating results;
- developments or disputes concerning proprietary rights;
- technological innovations or new products;
- governmental regulatory action;
- general conditions in the software industry;
- increased price competition;
- changes in revenue or earnings estimates by analysts; or
- other events or factors.

Many of the above factors are beyond our control.

The stock market has recently experienced extreme price and volume fluctuations. These fluctuations have particularly affected the market price of many software companies, often without regard to their operating performance.

ITEM 3. 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 relates primarily to our cash equivalents and short-term investments. We invest our excess cash in short-term, fixed income financial instruments. 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% from the levels at March 31, 2005, the fair market value of our short-term and long-term investments would not decline by a material 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 Euro and the British pound sterling. 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. Because approximately two-thirds of our business resides in the U.S. and based on our overall currency rate exposure at March 31, 2005, a 10% change in foreign exchange rates would not have had a material effect on our financial position, results of operations and cash flows. International revenues were 42.4% and 42.7% of total revenues for the three months ended March 31, 2005 and 2004, respectively. We anticipate that international revenues will continue to account for a significant amount of total revenues. 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.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(3) under the Exchange Act) as of March 31, 2005, the Company's chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and are operating in an effective manner.

Changes in internal controls. No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Business Objects Litigation

On October 2, 2001, we filed a lawsuit in the Virginia Circuit Court for Fairfax County against two field employees of Business Objects, S.A. This lawsuit alleged that these employees, who previously worked for us, breached their fiduciary and contractual obligations to us by, among other things, misappropriating our trade secrets and confidential information and soliciting our employees and customers. The complaint sought injunctive relief and monetary damages. On October 17, 2001, Business Objects filed suit against us in the United States District Court for the Northern District of California, claiming that our software infringes a patent issued to Business Objects relating to relational database access (the ‘403 patent). The suit sought injunctive relief and monetary damages. On August 29, 2003, the Court granted our motion for summary judgment and dismissed the lawsuit, ruling as a matter of law that our products do not infringe the ‘403 patent. Business Objects filed an appeal to the United States Court of Appeals for the Federal Circuit. The Federal Circuit heard oral arguments on September 9, 2004. On January 6, 2005, the Federal Circuit ruled that the district court had correctly construed the patent, that we do not literally infringe any of the asserted patent claims, and that Business Objects is legally barred from claiming that our products infringe two of the three asserted claims under the doctrine of equivalents. As a result of the Federal Circuit’s ruling, the case has been remanded to the district court for further proceedings limited solely to Business Objects’ one remaining patent claim, and limited solely to the doctrine of equivalents. The Federal Circuit also reinstated all of our non-infringement and invalidity counterclaims brought against Business Objects that the district court had not needed to address or decide.

On October 31, 2001, we filed suit against Business Objects, S.A. and its subsidiary, Business Objects Americas, Inc., in the United States District Court for the Eastern District of Virginia, claiming that Business Objects’ software infringes two patents held by us relating to asynchronous control of report generation using a web browser (the ‘033 patent) and a system and method of adapting automatic output of OLAP reports to disparate user output devices (the ‘050 patent). The complaint sought monetary damages and injunctive relief. On March 13, 2002, we voluntarily dismissed without prejudice our lawsuit pending in the Virginia Circuit Court for Fairfax County against the two field employees of Business Objects. The complaint against Business Objects was amended to add claims for violations of the federal Computer Fraud and Abuse Act, misappropriation of trade secrets, tortious interference with contractual relations and violations of the Virginia Conspiracy Act. As a result of pre-trial rulings, certain of these claims were dismissed. Our claims for tortious interference and misappropriation of trade secrets proceeded to trial on October 20, 2003. On October 28, 2003, the Court dismissed the tortious interference claim. In July 2003, the United States Patent & Trademark Office confirmed the validity of all the claims in the ‘033 and ‘050 patents and terminated reexamination proceedings that Business Objects had requested as to those patents. We agreed to dismissal of the ‘033 patent claims without prejudice. On June 8, 2004, the Court advised the parties that it intended to issue an order and opinion granting Business Objects’ motion for summary judgment of non-infringement on our ‘050 patent claims, and that the trial of the ‘050 patent claims previously scheduled to begin on June 15, 2004 would not occur. On August 6, 2004, the Court granted Business Objects’ motion for summary judgment on the ‘050 patent claims, ruling that Business Objects had not infringed the Company’s patent. The Court ruled in our favor on our claims of trade secret misappropriation, finding that Business Objects had misappropriated certain of our trade secrets. On September 7, 2004, we filed a notice of appeal to the United States Court of Appeals for the Federal Circuit. Business Objects did not file a cross appeal. We filed our opening appeal brief on January 7, 2005. Business Objects filed its opposition brief on March 22, 2005. We filed our reply brief on April 8, 2005. In addition, on December 3, 2004, the district court denied our motion for costs and Business Objects’ motion for fees and costs. Each party appealed this ruling by filing a notice of appeal to the Federal Circuit on January 3, 2005. On January 27, 2005, the parties filed a joint motion to stay these appeals regarding fees and costs pending the outcome of the merits appeal. This motion to stay was granted on March 9, 2005.

On December 10, 2003, we filed a complaint for patent infringement against Crystal Decisions, Inc. in the United States District Court for the District of Delaware. The lawsuit alleges that Crystal Decisions willfully infringes three patents issued to us relating to: (i) asynchronous control of report generation using a web browser (the '033 patent); (ii) management of an automatic OLAP report broadcast system (the '796 patent); and (iii) providing business intelligence web content with reduced client-side processing (the '432 patent). We are seeking monetary damages and injunctive relief. Following the filing of the complaint, Crystal Decisions was acquired by Business Objects Americas, Inc. Business Objects Americas, Inc. has answered the complaint, denying infringement and seeking a declaration that the patents in suit are invalid and not infringed by Business Objects Americas, Inc. Discovery has begun and trial is scheduled for May 2006.

The outcome of the legal proceedings described above is uncertain.

Other Proceedings

We are also involved in other legal proceedings through the normal course of business. Management believes that any unfavorable outcome related to these other proceedings will not have a material effect on our financial position, results of operations or cash flows.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about purchases by the Company during the quarter ended March 31, 2005 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit) (1)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (2)
January 1, 2005 – January 31, 2005	0	N/A	N/A	$ 32,669,036
February 1, 2005 – February 28, 2005	0	N/A	N/A	$ 32,669,036
March 1, 2005 – March 31, 2005	0	N/A	N/A	$ 32,669,036
Total:	0	N/A	67,800	$ 32,669,036

(1) The average price paid per share includes any broker commissions.

(2) The Company's Board of Directors approved the Company's repurchase of shares of its class A common stock having a value of up to $35.0 million in the aggregate pursuant to the repurchase program that the Company publicly announced on July 27, 2004, as amended (the "Program"). On April 26, 2005, the Company's Board of Directors modified the Program to increase, from $35.0 million to $130.0 million, the aggregate amount of class A common stock that the Company is authorized to repurchase. Unless terminated earlier by its terms or by resolution of the Company's Board of Directors, the Program will expire when the Company has repurchased all shares authorized for repurchase thereunder.

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ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Second Restated Certificate of Incorporation of the registrant (filed as Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (File No. 000-24435) and incorporated by reference herein).
3.2	Amended and Restated By-Laws of the registrant (filed as Exhibit 3.2 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (File No. 000-24435) and incorporated by reference herein).
4.1	Form of Certificate of Class A Common Stock of the registrant (filed as Exhibit 4.1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 (File No. 000-24435) and incorporated by reference herein).
4.2	Warrant Agreement, dated as of January 11, 2001, by and between the registrant and American Stock Transfer & Trust Company, included as Exhibit E to the Stipulation of Settlement regarding the settlement of the class action lawsuit, dated as of January 11, 2001 (filed as Exhibit 10.29 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (File No. 000-24435) and incorporated by reference herein).
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Chairman of the Board of Directors, President and Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Vice President, Finance and Chief Financial Officer.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

All other items included in this Quarterly Report on Form 10-Q are omitted because they are not applicable or the answers thereto are "none."

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SIGNATURES

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

MICROSTRATEGY INCORPORATED

By: /s/ Michael J. Saylor

Michael J. Saylor
President, Chairman of the Board of Directors
and Chief Executive Officer

By: /s/ Arthur S. Locke, III

Arthur S. Locke, III
Vice President, Finance and Chief Financial Officer

Date: May 10, 2005

Exhibit 31.1

CERTIFICATIONS

I, Michael J. Saylor, certify that:

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

Dated: May 10, 2005

/s/ Michael J. Saylor

Michael J. Saylor
Chairman of the Board of Directors,
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Arthur S. Locke, III, certify that:

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

Dated: May 10, 2005

/s/ Arthur S. Locke, III

Arthur S. Locke, III
Vice President, Finance and
Chief Financial Officer

Exhibit 32

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

In connection with the Quarterly Report on Form 10-Q of MicroStrategy Incorporated (the “Company”) for the period ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, the Chief Executive Officer of the Company and the Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge on the date hereof:

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

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

Dated: May 10, 2005

/s/ Michael J. Saylor

Michael J. Saylor
Chairman of the Board of Directors,
President and Chief Executive Officer

Dated: May 10, 2005

/s/ Arthur S. Locke, III

Arthur S. Locke, III
Vice President, Finance and
Chief Financial Officer