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MICROSTRATEGY INC

Form S-3

June 28, 2001

As filed with the Securities and Exchange Commission on June 28, 2001  
Registration Statement No. 333-

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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FORM S-3  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933  
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MICROSTRATEGY INCORPORATED  
(Exact name of registrant as specified in its charter)  
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Delaware 51-0323571  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

1861 International Drive  
McLean, Virginia 22102  
(703) 848-8600  
(Address, including zip code, and telephone number, including area code,  
of registrant's principal executive offices)  
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Mr. Michael J. Saylor  
Chief Executive Officer  
MicroStrategy Incorporated  
1861 International Drive  
McLean, Virginia 22102  
(703) 848-8600  
Copy to:  
Thomas S. Ward, Esq.  
Hale and Dorr LLP  
60 State Street  
Boston, Massachusetts 02109  
(617) 526-6000  
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Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  333- .

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  333- .

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If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

### CALCULATION OF REGISTRATION FEE

Title of Shares to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Class A Common Stock, \$.001 par value per share.....	25,563,896	\$2.83	\$72,218,006	\$18,054.50

- (1) Shares of class A common stock that may be offered pursuant to this registration statement consist of (A) 5,095,466 shares of class A common stock, (B) 8,321,321 shares of class A common stock issuable upon conversion of the series B convertible preferred stock held by the selling stockholders and as dividends on such series B convertible preferred stock in lieu of cash, (C) 6,194,909 shares of class A common stock issuable upon conversion of the series C convertible preferred stock held by the selling stockholders and as dividends on such series C convertible preferred stock in lieu of cash, (D) 3,252,200 shares of class A common stock issuable upon conversion of the series D convertible preferred stock held by the selling stockholders, and (E) 2,700,000 shares of class A common stock issuable upon conversion of the series E convertible preferred stock held by the selling stockholders. For purposes of estimating the total number of shares of class A common stock to be included in this registration statement, we included 17,216,230 shares, representing 125% of the number of shares of class A common stock issuable upon conversion of and as dividends on the series B convertible preferred stock and series C convertible preferred stock and 150% of the number of shares of class A common stock issuable upon conversion of the series E convertible preferred stock plus an indeterminate number of shares that may be issued as the result of any stock split, stock dividend, recapitalization, exchange or similar transaction pursuant to Rule 416 of the Securities Act, determined as if the series B convertible preferred stock were converted at a price of \$12.50 per share, the series C convertible preferred stock were converted at a price of \$17.50 per share, the series E convertible preferred stock were converted at an assumed conversion price of \$3.50 per share and the dividend conversion prices for the series B convertible preferred stock and series C convertible preferred stock were \$3.10 per share, which was the closing sale price of the class A common stock on June 20, 2001.
- (2) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) under the Securities Act and based upon the average of the high and low prices on the Nasdaq National Market on June 27, 2001.
- (3) Pursuant to Rule 457(p) of the Securities Act, the registrant hereby offsets against the filing fee required in connection with this registration statement the filing fee of \$18,474.81 paid by the registrant in connection with the Registration Statement on Form S-3 (File No. 333-60070), filed by the registrant on May 2, 2001 and withdrawn on June 18, 2001. Accordingly, no filing fee has been submitted herewith.

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The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Company shall

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file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), shall determine.

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+The information in this prospectus is not complete and may be changed. We may +  
+not sell these securities or accept an offer to buy these securities until +  
+the registration statement filed with the Securities and Exchange Commission +  
+is effective. This prospectus is not an offer to sell these securities and it +  
+is not soliciting an offer to buy these securities in any state where the +  
+offer or sale is not permitted. +

Subject to completion, dated June 28, 2001

PROSPECTUS

MICROSTRATEGY INCORPORATED

25,563,896 Shares of Class A Common Stock

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The shares of class A common stock described in this prospectus consist of shares of class A common stock issued to the selling stockholders upon exchange of their series A convertible preferred stock and shares of class A common stock that are issuable upon conversion of shares of series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock issued to the selling stockholders upon exchange of shares of series A convertible preferred stock held by the selling stockholders and as dividends on series B convertible preferred stock and series C convertible preferred stock in lieu of cash. These shares of class A common stock, when issued to the selling stockholders, will be offered by the selling stockholders named in this prospectus, which will receive all of the proceeds from any sales. If all shares of series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock issued to the selling stockholders in connection with the exchange of the series A convertible preferred stock were converted into shares of class A common stock and all dividends on the series B convertible preferred stock and series C convertible preferred stock were paid in shares of class A common stock in lieu of cash, assuming a dividend conversion price of \$3.10 per share, which was the closing sale price of the class A common stock on June 20, 2001, and assuming a series E convertible preferred stock conversion price of \$3.50 per share in accordance with the terms of the redemption and exchange agreements relating to the issuance of the series E convertible preferred stock, a total of 11,850 of the shares of series A convertible preferred stock held by the selling stockholders would have been exchanged for or converted into an aggregate of 22,233,650 shares of class A common stock, which includes 5,568,466 shares of class A common stock issued upon exchange of shares of series A convertible preferred stock.

The selling stockholders may sell the shares of common stock at various times and in various types of transactions, including sales in the open market, sales in negotiated transactions and sales by a combination of these methods. Shares may be sold at the market price of the common stock at the time of a sale, at prices relating to the market price over a period of time, or at prices

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negotiated with the buyers of shares. More detailed information concerning the distribution of the shares is contained in the section of this prospectus entitled "Plan of Distribution" which begins on page 22.

The selling stockholders will pay all brokerage fees and commissions and similar sale-related expenses. We are paying expenses relating to the registration of the shares with the Securities and Exchange Commission. We have also agreed to indemnify the selling stockholders against various liabilities.

We will not receive any of the proceeds from the sale of the shares.

The selling stockholders, or their pledgees, donees, transferees or other successors in interest, may offer the shares through public or private transactions at prevailing market prices, at prices related to prevailing market prices or at privately negotiated prices. Our class A common stock is traded on the Nasdaq National Market under the symbol "MSTR." On June 27, 2001, the closing sale price of our class A common stock on Nasdaq was \$2.81 per share.

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Investing in our class A common stock involves a high degree of risk. See "Risk Factors" beginning on page 7.

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The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined whether this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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The date of this prospectus is       , 2001.

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We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus. The selling stockholder is offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the shares.

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### WHERE TO FIND MORE INFORMATION

We file annual, quarterly, and current reports, proxy statements, and other documents with the Securities and Exchange Commission (the "SEC"). You may read and copy any document we file at the SEC's public reference room at Judiciary Plaza Building, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. You should call 1-800-SEC-0330 for more information on the public reference room. Our SEC filings are also available to you on the SEC's Internet site at <http://www.sec.gov>. Our common stock is quoted on Nasdaq. Reports, proxy statements and other information concerning MicroStrategy may be inspected at the offices of The Nasdaq Stock Market, Inc., 1735 K Street, N.W., Washington, D.C. 20006.

This prospectus is part of a registration statement that we filed with the SEC. The registration statement contains more information than this prospectus regarding MicroStrategy and the common stock, including certain exhibits and schedules. You can obtain a copy of the registration statement from the SEC at the address listed above or from its Internet site.

### INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate" into this prospectus information we file with the SEC in other documents. This means that we can disclose important information to you by referring to other documents that contain that information. The information incorporated by reference is considered to be part of this prospectus, and information that we file with the SEC in the future and incorporate by reference will automatically update and may supersede the information contained in this prospectus. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), prior to the sale of all the shares covered by this prospectus.

The following documents that we have filed with the SEC are incorporated herein by reference:

- (1) Our Annual Report on Form 10-K for the year ended December 31, 2000, as amended;
- (2) Our Current Report on Form 8-K filed February 7, 2001;
- (3) Our Current Report on Form 8-K filed February 15, 2001;

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- (4) Our Current Report on Form 8-K filed March 9, 2001;
- (5) Our Current Report on Form 8-K filed April 4, 2001;
- (6) Our Current Report on Form 8-K filed May 2, 2001;
- (7) Our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001;
- (8) Our Current Report on Form 8-K filed June 18, 2001;
- (9) Our Current Report on Form 8-K filed June 20, 2001;
- (10) Our definitive proxy statement on Schedule 14A, relating to our 2001 Annual Meeting of Stockholders, filed June 28, 2001;
- (11) All of our filings pursuant to the Exchange Act after the date of filing the initial registration statement and prior to effectiveness of the registration statement; and
- (12) The description of our class A common stock contained in our Registration Statement on Form 8-A, including any amendments or reports filed for the purpose of updating such description.

You may request a copy of these documents, at no cost, by writing to:

MicroStrategy Incorporated  
1861 International Drive  
McLean, Virginia 22102  
Attention: Investor Relations  
Telephone: (703) 848-8600

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### SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This prospectus contains or incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Exchange Act. You can identify these forward-looking statements by our use of the words "believes," "anticipates," "plans," "expects," "may," "will," "intends," "estimates" and similar expressions, whether in the negative or affirmative. Although we believe that these forward-looking statements reasonably reflect our plans, intentions and expectations, we cannot guarantee that we actually will achieve these plans, intentions or expectations. Our actual results could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements below (particularly under the heading "Risk Factors") that we believe could cause our actual results to differ materially from the forward-looking statements that we make. We do not intend to update information contained in any forward-looking statement we make.

### BUSINESS

We are a leading worldwide provider of business intelligence software and related services that enable the transaction of one-to-one electronic business through web, wireless and voice communication channels. Our product line enables both proactive and interactive delivery of information from large-scale databases. Our objective is to provide businesses with a software platform to develop solutions that deliver insight and intelligence to their

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enterprises, customers and supply-chain partners.

Our software platform enables users to query and analyze the most detailed, transaction-level databases, turning data into business intelligence. In addition to supporting internal enterprise users, the platform delivers critical business information beyond corporate boundaries to customers, partners and supply-chain constituencies through a broad range of communication channels such as the Internet, e-mail, telephone and wireless communication devices. Our platform is designed for developing business intelligence solutions that are personalized and proactive and that reach millions of users. We offer a comprehensive set of consulting, education and technical support services for our customers and partners.

Our principal corporate offices are located in McLean, Virginia. We also maintain domestic sales offices throughout the United States and international sales offices throughout Europe, South America and the Asia-Pacific region. International sales accounted for 24.9%, 24.0% and 26.1% of our total revenues in 2000, 1999 and 1998, respectively. In April 2001, we implemented a corporate restructuring which included a reduction in our worldwide workforce of approximately one-third.

In July 1999, we launched a new business unit called Strategy.ecom. Strategy.com delivers to subscribers highly personalized, timely information services on a scheduled or event-driven basis through a wide variety of delivery methods, including e-mail and wireless devices. As of June 20, 2001, syndicated programming hosted by Strategy.com included Finance, News, Weather and Traffic "channels." Strategy.com syndicates its channels through companies it refers to as Strategy.com affiliates, such as Earthlink and Ameritrade. Strategy.com's hosted messaging applications can be used by these affiliates to increase mind share, facilitate transactions, and augment customer profile data warehouses with information that the user has provided and given permission to use. Strategy.com also provides application maintenance, development, hosting and support services. MicroStrategy owns approximately 84% of the economic interest in the outstanding equity of Strategy.com on an as converted, diluted basis. In April and May 2001, Strategy.com adopted restructuring plans in which it will reduce its workforce to approximately 40 employees and will explore strategic alternatives for the Strategy.com business, including the potential sale of its operations.

MicroStrategy's executive offices are located at 1861 International Drive, McLean, Virginia 22102, its telephone number is (703) 848-8600 and its website is located at <http://www.microstrategy.com>. MicroStrategy(R) is a registered trademark of MicroStrategy.

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### 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 our company. 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 have experienced losses in the past and expect future losses through at least the end of 2001

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We have not achieved profitability and have incurred significant operating losses in each of the last five years. We incurred net losses since becoming a public company of \$20.6 million in the three months ended March 31, 2001 and \$261.3 million, \$33.7 million and \$2.3 million in the years ended December 31, 2000, 1999 and 1998, respectively. As of March 31, 2001, our accumulated deficit was \$319.8 million. We expect our gross revenue to decline for the year ended December 31, 2000 as compared to the year ended December 31, 2001. In connection with our April 2001 corporate restructuring and the additional Strategy.com restructurings in April and May 2001, we expect to incur a restructuring charge and related asset impairment charges in the second quarter of 2001 of approximately \$35-45 million.

We expect that we will not achieve sufficient revenue to become profitable through at least the end of 2001. Even if we do achieve profitability, we cannot assure you that we can sustain or increase profitability on a quarterly or annual basis in the future. If revenue grows more slowly than we anticipate, or if operating expenses exceed our expectations or cannot be adjusted accordingly, our business, results of operations and financial condition will be materially and adversely affected.

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 may 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 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; and
- . seasonal factors, such as our traditionally lower pace of new sales in



the summer.

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Limited Ability to Adjust Expenses. We base our operating expense budgets on expected revenue trends. Many of our expenses, particularly personnel costs and rent, 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 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 they seek 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 varies widely from one customer to the next. Implementing our products 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.

Our employees, investors, customers, vendors and lenders may react adversely to the revision of our 1999, 1998 and 1997 revenues and operating results

Our future success depends in large part on the support of our key employees, investors, customers, vendors and lenders, who may react adversely to the revision of our 1999, 1998 and 1997 revenues and operating results. The revision of our 1999, 1998 and 1997 revenues and operating results has resulted in substantial amounts of negative publicity about us and we believe that this publicity has caused some of our potential customers to defer purchases of our software or to do business with other vendors. We may not be able to retain key employees and customers if they lose confidence in us, and our vendors and lenders may reexamine their willingness to do business with us. In addition, investors may lose confidence, which may cause the trading price of our class A common stock to decrease. If we lose the services of our key employees or are unable to retain and attract our existing and new customers, vendors and lenders, our business, operating results and financial condition could be materially and adversely affected.

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

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Our deferred revenue was approximately \$75.4 million as of March 31, 2001. The timing and ultimate recognition of our deferred revenue depends 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 at any particular date may not be representative of actual revenue for any succeeding period.

We may need additional financing which could be difficult to obtain

We may require additional external financing through credit facilities, sale of additional debt or equity securities in MicroStrategy or by obtaining other financing facilities to support our operations, as we expect to

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incur operating losses through at least the third quarter of 2001 and possibly longer. Obtaining additional financing will be subject to a number of factors, including:

- . market conditions;
- . our operating performance; and
- . investor sentiment.

These factors may make the timing, amount, terms and conditions of additional financing unattractive to us. If we are unable to raise capital needed to fund our operations, our business, operating results and financial condition may be materially and adversely affected.

We face litigation that could have a material adverse effect on our business, financial condition and results of operations

We and certain of our directors and executive officers are named as defendants in a private securities class action lawsuit and a shareholder derivative lawsuit relating to the restatement of our 1999, 1998 and 1997 financial results. Although we have entered into agreements to settle such lawsuits and the securities class action settlement has received district court approval, the shareholder derivative lawsuit is subject to court approval and both settlements are subject to various closing conditions. If the agreed upon settlements are not consummated, it is possible that we may be required to pay substantial damages or settlement costs which could have a material adverse effect on our financial condition or results of operation. Regardless of the outcome of these matters, it is likely that we will incur substantial defense costs and that these actions may cause a diversion of management time and attention.

The issuance of class A common stock as part of the proposed settlement of class action litigation and the exercise of warrants or conversion of notes issued as part of the litigation settlement could result in a substantial number of additional shares of class A common stock being issued

The agreements we entered into to settle the private securities class action lawsuit and the derivative suit relating to the restatement of our 1999, 1998 and 1997 financial results require us to issue to members of the class 2,777,778 shares of class A common stock. At the time of that issuance, some of our officers will tender to us for no consideration 1,683,502 shares of class A common stock for cancellation, resulting in a net issuance of 1,094,276 shares of class A common stock. In addition, the settlement

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agreements require the issuance of warrants to purchase 1,900,000 shares of class A common stock and five-year unsecured subordinated promissory notes having an aggregate principal amount of \$80.5 million. We would have the option at any time prior to the expiration of the five-year term of the notes to convert the notes into a number of shares of class A common stock equal to the principal amount of the notes being converted divided by 80% of the dollar volume-weighted average trading price of the class A common stock over a ten-day period preceding our delivery of a notice of conversion, which could result in a substantial number of shares of class A common stock being issued. For example, if the conversion price of notes were based on the dollar volume-weighted average trading price of the Class A common stock during the 10 trading days ending June 20, 2001, we would be obligated to issue 28,537,032 shares of class A common stock if we elected to convert the notes. The issuance of a substantial number of shares of class A common stock as part of the litigation settlement and future exercises or conversions of securities issued in the litigation settlement may result in substantial dilution to the interests of holders of class A common stock and may result in downward pressure on the price of our class A common stock.

The conversion of the shares of our preferred stock could result in substantial numbers of additional shares of class A common stock being issued if our market price declines during periods in which the conversion price of the preferred stock may adjust

On June 14, 2001, holders of our series A convertible preferred stock exchanged 11,850 shares of series A convertible preferred stock for cash and shares of our class A common stock, series B convertible preferred stock,

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series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock. The series B convertible preferred stock, series C convertible preferred stock and series D convertible preferred stock are convertible into shares of our class A common stock at conversion prices currently equal to \$12.50, \$17.50 and \$5.00 per share, respectively. The series E convertible preferred stock is convertible beginning on December 12, 2001 into shares of our class A common stock at a conversion price equal to the average of the dollar volume-weighted average prices of the class A common stock during the ten consecutive trading days immediately preceding December 11, 2001. The outstanding shares of series B convertible preferred stock, series C convertible preferred stock and series D convertible preferred stock would currently convert into 7,492,200 shares of class A common stock, plus a number of shares reflecting accrued but unpaid dividends as of the conversion date. However, if the holders of the series B convertible preferred stock and series C convertible preferred stock do not convert their shares into shares of class A common stock prior to their maturity three years from the date of issuance, and if we do not redeem their outstanding shares of series B convertible preferred stock and series C convertible preferred stock at maturity, the conversion price for such shares will be reset to a price equal to 95% of the dollar volume-weighted average price of our class A common stock for the 30 trading days prior to the maturity date. If the market price at maturity of our class A common stock is less than the applicable conversion price, the number of shares of class A common stock that we could be required to issue upon conversion of the series B convertible preferred stock and series C convertible preferred stock would increase. For instance, if the market price of our class A common stock on the maturity date of our series B convertible preferred stock and series C convertible preferred stock were \$3.10, the market price of our class A common stock as of June 20, 2001, the holders of the series B convertible preferred stock and series C convertible preferred stock did not elect to convert any of their shares prior to the maturity date and we did not redeem such shares on the maturity date, we would

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be required to issue a total of 19,661,290 shares of our class A common stock upon conversion of such shares at maturity.

After the exchange of shares of our series A convertible preferred stock for shares of our class A common stock, series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock as described above, 650 shares of our series A convertible preferred stock remain outstanding. We have the right to redeem 120 of such shares through December 11, 2001. As of June 20, 2001, shares of series A convertible preferred stock are convertible into class A common stock at a conversion price equal to \$33.3854 per share. This conversion price is expected to be adjusted to a price equal to the average of the dollar volume-weighted average price of our class A common stock during the ten trading days beginning on June 20, 2001. Because the average trading price of the class A common stock for the 10 trading days ending on June 20, 2001 has been approximately \$3.53, this adjustment is expected to be substantial. In addition, if any shares of series A convertible preferred stock remain outstanding on June 19, 2002, the conversion price may be further adjusted based on the average of the dollar volume-weighted average price of our class A common stock during the ten trading days after that date and on each subsequent anniversary of that date, if such adjustment would result in a lower conversion price. The conversion price of the series A convertible preferred stock may also be adjusted upon the occurrence of various events, including the failure to maintain the effectiveness of the registration statement to which these shares relate and the issuance of certain equity securities. As a result, the lower the price of our class A common stock at these intervals, the greater the number of shares the holder will receive upon conversion after any such adjustment. For example, the number of shares of class A common stock that we would be required to issue upon conversion of all 650 outstanding shares of series A convertible preferred stock, excluding shares issued as accrued dividends, would increase from approximately 194,696 shares, based on the applicable conversion price of \$33.3854 per share as of June 20, 2001, to approximately 2,096,774 shares based on the \$3.10 closing price of our class A common Stock as of June 20, 2001.

If our series E convertible preferred stock remains outstanding on December 12, 2001 and the average dollar volume-weighted price of our class A common stock was low during the ten trading days immediately preceding December 11, 2001, the series E convertible preferred stock could become convertible into a significant number of shares of class A common stock, which could decrease the price of our class A common stock. In addition, to the extent the shares of our preferred stock are converted or dividends on these shares are paid in shares of

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class A common stock rather than cash, a significant number of shares of class A common stock may be sold into the market, which could decrease the price of our class A common stock and encourage short sales. Short sales could place further downward pressure on the price of our class A common stock. In that case, we could be required to issue an increasingly greater number of shares of our class A common stock upon future conversions of the series A convertible preferred stock or upon future conversions of or as dividends on the series B convertible preferred stock and series C convertible preferred stock as a result of the annual and other adjustments described above, sales of which could further depress the price of our class A common stock.

The conversion of and the payment of dividends in shares of class A common stock in lieu of cash on the preferred stock may result in substantial dilution to the interests of other holders of our class A common stock. No selling stockholder may convert its preferred stock if upon such conversion

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the selling stockholder together with its affiliates would have acquired a number of shares of class A common stock during the 60-day period ending on the date of conversion which, when added to the number of shares of class A common stock held at the beginning of such 60-day period, would exceed 9.99% of our then outstanding class A common stock, excluding for purposes of such determination shares of class A common stock issuable upon conversion of shares of preferred stock which have not been converted. Nevertheless, a selling stockholder may still sell a substantial number of shares in the market. By periodically selling shares into the market, an individual selling stockholder could eventually sell more than 9.99% of our outstanding class A common stock while never holding more than 9.99% at any specific time.

We may be required to pay substantial penalties to the holders of the preferred shares if specific events occur

In accordance with the terms of the agreements relating to the issuance of our convertible preferred stock, we are required to pay substantial penalties to a holder of preferred stock under specified circumstances, including, among others:

- . nonpayment of dividends on the series A convertible preferred stock, series B convertible preferred stock, series C convertible preferred stock and series E convertible preferred stock in a timely manner;
- . failure to deliver shares of our class A common stock upon conversion of the preferred shares after a proper request;
- . nonpayment of the redemption price at maturity of any remaining series A convertible preferred stock, series B convertible preferred stock, series C convertible preferred stock and series E convertible preferred stock; or
- . the unavailability of the registration statement relating to the shares of class A common stock issuable upon conversion of and in lieu of cash dividends on the preferred stock to cover the resale of such shares for more than brief intervals.

These penalties are generally paid in the form of interest payments, subject to any restrictions imposed by applicable law. In the third quarter of 2000, we incurred \$578,000 in penalties as a result of a 14-day delay in the filing of a registration statement registering the shares of class A common stock issuable upon conversion of and in lieu of dividends on the series A convertible preferred stock.

We are currently unable to borrow additional amounts under our master equipment lease agreement

We signed a three-year master lease agreement to lease up to \$40.0 million of computer equipment in November 1999, of which we have leased approximately \$17.8 million as of March 31, 2001. Future drawdowns and interest rates under the lease agreement are subject to our credit worthiness. Currently, we are not able to draw down additional amounts under the lease agreement.

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, customer relationship management applications, portals and narrowcast messaging technologies are intensely competitive and subject to rapidly changing technology. In

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addition, many of our competitors in these markets are offering, or may soon offer, products and services that may compete with MicroStrategy products and those of Strategy.com.

MicroStrategy's most direct competitors provide:

- . business intelligence software;
- . online analytical processing, or OLAP, tools;
- . query and reporting tools;
- . web-based static reporting tools;
- . information delivery and proactive reporting;
- . analytical customer relationship management products;
- . web traffic analysis applications; and
- . marketing automation.

Each of these markets are discussed more fully below.

**Business Intelligence Software.** Makers of business intelligence software provide business intelligence capabilities designed for integration, customization and application development. Leading industry analysts classify companies such as Microsoft, Oracle, Hyperion, SAP and SAS to be leading providers of business intelligence software.

**OLAP Tools.** Companies that build software to perform OLAP provide offerings competitive with the core MicroStrategy 7 platform. Whether web-based or client-server, these tools give end users the ability to query underlying data sources without having to hand code structured query language queries. Most OLAP tools allow users to build their own calculations and specify report layouts and other options. Additionally, OLAP tools provide users the ability to navigate throughout the underlying data in an easy, graphical mode, often referred to as drilling. Providers of OLAP tools include Cognos, Microsoft, Hyperion, Brio, IBM, Seagate and Microsoft.

**Query and Reporting Tools.** Query and reporting tools allow large numbers of end users to gain access to pre-defined reports for simple analysis. Often the end users are able to specify some sort of run-time criteria that customizes the result set for that particular person. Some limited "drilling" is also provided. Companies that produce query and reporting tools include Business Objects, Cognos, Oracle, Seagate, and Brio.

**Web-based Static Reporting Tools.** Companies that offer software to deliver pre-built reports for end user viewing and consumption can also compete with MicroStrategy. These applications often lack the sophistication, robustness and scalability of MicroStrategy, but can be attractive for small, departmental applications. Vendors in this category include Actuate, Business Objects, Seagate, Microsoft, Computer Associates and SAS.

**Information Delivery and Proactive Reporting.** Companies that focus on the proactive delivery of information via e-mail, website, or other medium can compete with MicroStrategy's offerings. Typically these tools serve to push out compiled reports on a scheduled basis to sets of users based on job type. MicroStrategy software has this technology integrated into its core platforms. Vendors of such technology include Actuate, nQuire, Information Builders and Business Objects.

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Analytical Customer Relationship Management Products. Companies that deliver customer relationship management products alone or in conjunction with e-commerce applications, such as Broadbase, BroadVision, E.piphany and Vignette, compete with our analytical customer relationship management applications. In contrast with providers of operational customer relationship management vendors, such as Vantive and Oracle, analytical customer relationship management deals more with customer segmentation, analysis and interaction as opposed to infrastructure and call centers.

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Web Traffic Analysis Applications. Reporting and analysis tools can be specialized to analyze visitors to a company's website. Typically this involves extracting data from a web-log file and importing it into a usable format, often in a relational database. A set of analysis, sometimes customer-centric in nature, is performed, and limited ad-hoc reporting is permitted. Advanced applications in this space merge data from the web-logs with other customer centric attributes to help provide a complete view of the customer base. Vendors in this space include Accrue, Net.Genesis and WebTrends.

Marketing Automation. Applications focused on the automation and execution of marketing tasks, such as campaign management and delivery, compete with our customer relationship management products and our Narrowcast Server platform. Leading vendors in this space include E.piphany, Xchange, Chordiant and Broadbase.

Strategy.com's most direct competitors provide:

- . web portal and information networks;
- . vertical internet portals and information networks; and
- . wireless communications and wireless access protocol enabled products.

Each of these market segments are discussed more fully below.

Web Portals and Information Networks. Web portals and information networks, such as Microsoft Network, Yahoo, Lycos, Excite, America Online and InfoSpace.com, offer an array of information that is similar to information provided by Strategy.com.

Vertical Internet Portals and Information Networks. Expedia, Weather.com, CNBC.com, ABC.com, ESPN.com, Microsoft Investor, StockBoss, Microsoft CarPoint, InfoBeat, Internet Travel Network and others have developed custom applications and products to commercialize, analyze and deliver specific information over the Internet. These systems are usually tailored to one application, such as providing news, sports or weather, but in the aggregate, they offer applications similar to those provided by Strategy.com. Any one of these companies could expand their offerings to more closely compete with Strategy.com.

Wireless Communications and Wireless Access Protocol Enabled Products. Wireless communications providers, such as AT&T, Sprint, MCI WorldCom, Nextel Communications, British Telecom, Deutsche Telekom, PageNet, Nokia, Ericsson, 3COM and Palm offer a variety of mobile phones and wireless devices over which Strategy.com delivers information. These companies may develop in-house information services or partner with other companies to deliver information that is competitive to that offered by Strategy.com.

Many of our competitors have longer operating histories, significantly

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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 cannot be sure that we will be able to compete successfully against current and future competitors or that the competitive pressures we face will not have a material adverse affect 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 harm our ability to obtain maintenance revenues for new and existing product licenses on favorable terms.

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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. In April 2001, we implemented a corporate restructuring which included a reduction in our worldwide workforce of approximately one-third. In April and May 2001, Strategy.com adopted restructuring plans in which it will reduce its workforce to approximately 40 employees. These reductions in force could adversely impact our employee morale and our ability to attract and retain employees. Our future success also depends in large part on the continued service of key management personnel, particularly Michael J. Saylor, our Chairman 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.

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;



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- . 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, introductions of new competitive products or customer requirements, nor can we be sure that our 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 MicroStrategy products. Although the core database component of our business intelligence solutions is compatible with nearly all enterprise server hardware and operating system combinations, such as OS/390, AS/400, Unix and Windows, our application server component runs only on the Windows NT operating system. Therefore, our ability to increase sales currently depends on the continued acceptance of the Windows NT operating system. We cannot market many of our current business intelligence products to potential customers who use Unix operating systems as their application server. We would have to invest substantial resources to develop a Unix product and we cannot be sure that we could introduce such a product on a timely or cost-effective basis, if at all.

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The legal environment regarding collection and use of personal information is uncertain and new laws or government regulations could have a material adverse effect on our business, operating results and financial condition

Although some existing laws govern the collection and use of personal information obtained through the Internet or other public data networks, it is unclear whether they apply to our products and us. Most of these laws were adopted before the widespread use and commercialization of the Internet and other public data networks. As a result, the laws do not address the unique issues presented by these media.

Due to increasing use of the Internet and the dramatically increased access to personal information made possible by technologies like ours, the U.S. federal and various state and foreign governments have recently proposed limitations on the collection and use of personal information of users of the Internet and other public data networks.

Although we attempt to obtain permission from users prior to collecting or processing their personal data, new laws or regulations governing personal privacy may change the ways in which we and our customers and affiliates may gather this personal information. There may be significant costs and delays involved with adapting our products to any change in regulations.

Our business, and in particular the Strategy.com network, depends upon our

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receiving detailed personal information about subscribers in order to provide them with the services they select. Privacy concerns may cause some potential subscribers to forego subscribing to our service. If new laws or regulations prohibit us from using information in the ways that we currently do or plan to do, or if users opt out of making their personal preferences and information available to us and Strategy.com affiliates, the utility of our products will decrease, which could have a material adverse effect on our business, operating results and financial condition. If our customers, our network or Strategy.com affiliates misuse personal information, our legal liability may be increased and our growth may be limited.

The Federal Trade Commission has recently launched investigations of the data collection practices of various Internet companies. In addition, numerous individuals and privacy groups have filed lawsuits or administrative complaints against other companies asserting that they were harmed by the misuse of their personal information. If comparable legal proceedings were commenced against us, regardless of the merits of the claim, we could be required to spend significant amounts on legal defense and our senior management's time and attention could be diverted from our business. In addition, demand for our products could be reduced if companies are not permitted to use clickstream data derived from their websites. This could materially and adversely affect our business, operating results and financial condition.

In Europe, the European Union Directive on Data Protection requires member countries to implement legislation that prohibits any European entity from sharing personal data collected from EU persons with entities in any country that is not deemed to have adequate data protection laws. Currently, the United States' data protection laws are not deemed to be adequate, and some data transfers from European entities to us may be prohibited unless explicit consent is obtained from EU data subjects, we agree to specified contractual privacy safeguards that are approved by EU authorities, or we comply with the requirements of the so-called Safe Harbor program between the United States and the EU. It may not be feasible for us to obtain the required consent or to make the necessary contractual commitments. Currently, we have not sought to be certified under the Safe Harbor program, and our data collection and handling practices may not qualify under this program. Although enforcement of EU data protection laws against U.S. companies is currently subject to a standstill, this standstill will expire in mid-2001, and some countries, including France, are currently attempting to enforce data protection laws with respect to data exports to the United States, notwithstanding the existence of the standstill.

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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 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

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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.

Our relationship with Strategy.com could create the potential for conflicts of interest

We hold an approximately 84% economic interest in the equity of Strategy.com. Conflicts may arise between us and other investors in Strategy.com, including: the allocation of business opportunities, the sharing of rights, technologies, facilities, personnel and other resources, and the fiduciary duties owed by officers, directors and other personnel who provide services to both us and Strategy.com.

Strategy.com is expected to incur significant losses for the foreseeable future and we are exploring strategic alternatives for this business

Strategy.com is expected to incur significant losses for the foreseeable future. In April and May 2001, Strategy.com adopted restructuring plans in which it will reduce its workforce to approximately 40 employees and will explore strategic alternatives for the Strategy.com business, including the potential sale of the Strategy.com business. It may not be possible to sell the Strategy.com business on acceptable terms.

Because of the rights of our two classes of common stock, and because we are controlled by our existing stockholders, 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 31, 2001, holders of our class B common stock owned or controlled 50,973,527 shares of class B common stock, or 94.2% of the total voting power. Michael J. Saylor, our Chairman and Chief Executive Officer, controlled 2,785,155 shares of class A common stock and 39,465,013 shares of class B common stock, or 73.5% of total voting power, as of May 31, 2001. 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 bylaws 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 or former employees of our company or related parties, to transfer shares of class B common stock, subject to the approval of a majority of the holders of outstanding class B common stock. Mr. Saylor or a group of stockholders possessing a majority of the outstanding class B common stock could, without seeking anyone else's approval, transfer voting control of MicroStrategy to a third party. Such a transfer of control could have a material adverse effect on our business, operating results and financial condition. Mr. Saylor will also be able to prevent a change of control of MicroStrategy, regardless of whether holders of class A common stock might otherwise receive a premium for their shares over the then current market price.

We rely on our strategic channel partners and if we are unable to develop or

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maintain successful relationships with them, our business, operating results and financial condition will suffer

In addition to our direct sales force, we rely on strategic channel partners, such as original equipment manufacturers, system integrators and value-added resellers, to license and support our products in the United States and internationally. In particular, for the three months ended March 31, 2001 and the years ended December 31, 2000, 1999 and 1998, channel partners accounted for, directly or indirectly, approximately 34.0%, 44.4%, 39.2% and 33.6% of our total product license 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 intend to increase the level of indirect sales activities through our strategic channel partners. However, we may not be successful in our efforts to continue to expand indirect sales in this manner. We may not be able to attract strategic partners who will market our products effectively and who will be qualified to provide timely and cost-effective customer support and service. Our ability to achieve revenue growth in the future will depend in part on our success in developing and maintaining successful relationships with those strategic partners. If we are unable to develop or maintain our relationships with these strategic partners, our business, operating results and financial condition will suffer.

Strategy.com affiliates will rely on Strategy.com to maintain the infrastructure of the network and any problems with that infrastructure could expose Strategy.com to liability from its Strategy.com affiliates and their customers

Strategy.com affiliates depend on Strategy.com to maintain the software and hardware infrastructure of the Strategy.com network. If this infrastructure fails or Strategy.com affiliates or their customers otherwise experience difficulties or delays in accessing the network, Strategy.com could face liability claims from them. Strategy.com expects to include contractual provisions limiting its liability to its Strategy.com affiliates for system failures and delays, but these limits may not be enforceable and may not be sufficient to shield Strategy.com from liability. Strategy.com will seek to obtain liability insurance to cover problems of this sort, but insurance may not be available and the amounts of its coverage may not be sufficient to cover all potential claims.

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

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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.

In late March 2001, NCR Corporation asked us to consider licensing certain technology which NCR alleged was covered under patents that they hold and implied that if we were unwilling to license this technology they

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might seek to enforce their patents against us. On June 20, 2001, NCR filed suit against us and our Strategy.com subsidiary in the United States District Court for the District of Delaware seeking to enforce six patents and requesting unspecified monetary damages and equitable relief. If NCR continues to seek enforcement of any of these patents and if such patents are found to be valid and enforceable against us, our business, operating results and financial condition may be materially adversely affected.

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 32.7%, 24.9%, 24.0% and 26.1% of our total revenues for the three months ended March 31, 2001 and the years ended December 31, 2000, 1999 and 1998, 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; and
- . the burden of complying with a wide variety of foreign laws.

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

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

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lead to product liability claims against us

Software products as complex as ours may contain errors or defects, especially when first or subsequent versions are released. Although we test our products extensively, we have in the past discovered software errors in 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.

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;

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- . 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;
- . any change in the actual or expected amount of dilution attributable to issuances of additional shares of class A common stock upon conversion of our preferred stock or as a result of the litigation settlement; 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.

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### USE OF PROCEEDS

We will not receive any proceeds from the sale of the shares by the selling stockholders.

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We will bear all costs, fees and expenses (excluding any underwriting discounts and commissions and expenses incurred by the selling stockholders for brokerage, accounting, tax or legal services or any other expenses incurred by the selling stockholders in disposing of the shares) incurred in effecting the registration of the shares covered by this prospectus, including, without limitation, all registration and filing fees, Nasdaq listing fees, fees and expenses of our counsel, fees and expenses of our accountants, and blue sky fees and expenses.

### SELLING STOCKHOLDERS

The shares of class A common stock being offered by the selling stockholders include:

- . shares of class A common stock issued to the selling stockholders upon exchange of their series A convertible preferred stock;
- . shares of class A common stock issuable upon conversion of the series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock issued to the selling stockholders upon exchange of their series A convertible preferred stock; and
- . shares of class A common stock issuable as dividends on such series B convertible preferred stock and such series C convertible preferred stock in lieu of cash.

We are registering the shares of class A common stock in order to permit the selling stockholders to offer these shares for resale from time to time. Except for the ownership of class A common stock and our convertible preferred stock, the selling stockholders have not had any material relationship with us within the past three years.

The table below lists the selling stockholders and other information regarding the beneficial ownership of the class A common stock by each of the selling stockholders as of June 20, 2001. The second column lists, for each selling stockholder, the number of shares of class A common stock held, plus the number of shares of class A common stock, based on its ownership of series A convertible preferred stock, series B convertible preferred stock, series C convertible preferred stock and series D convertible preferred stock, issuable to the selling stockholders upon conversion of the series A convertible preferred stock, series B convertible preferred stock, series C convertible preferred stock and series D convertible preferred stock, without regard to any limitations on conversions or exercise. The number of shares issuable may fluctuate from time to time, but the number of shares offered by this prospectus may not exceed 25,563,896. The third column lists each selling stockholder's portion of the 25,563,896 shares of class A common stock being offered by this prospectus.

We determined the number of shares of class A common stock to be offered for resale by this prospectus pursuant to agreements with the selling stockholders and in order to adequately cover a reasonable increase in the number of shares required. Our calculation of the number of shares to be offered for resale is based on:

- . an aggregate of 5,095,466 shares of class A common stock issued in exchange for series A convertible preferred stock;
- . the conversion price of \$12.50 per share of series B convertible preferred stock;

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- . the conversion price of \$17.50 per share of series C convertible preferred stock;
- . an aggregate of 3,252,200 shares issuable upon conversion of shares of series D convertible preferred stock; and
- . an aggregate of 2,700,000 shares issuable upon conversion of shares of series E convertible preferred stock, representing 150% of the shares issuable upon conversion of the series E convertible preferred

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stock at an assumed conversion price of \$3.50, as set forth in the redemption and exchange agreements relating to the issuance of the series E convertible preferred stock.

In accordance with the terms of the registration rights agreements with the holders of the preferred shares, this prospectus covers:

- . the resale of 5,095,466 of the shares of class A common stock issued in exchange for series A convertible preferred stock,
- . the resale of 125% of the number of shares of class A common stock issuable upon conversion of the series B convertible preferred stock, determined as if the series B convertible preferred stock were converted in full at the assumed conversion price of \$12.50, plus 125% of the number of shares of class A common stock issuable in lieu of cash dividends payable on the series B convertible preferred stock;
- . the resale of 125% of the number of shares of class A common stock issuable upon conversion of the series C convertible preferred stock, determined as if the series C convertible preferred stock were converted in full at the assumed conversion price of \$17.50, plus 125% of the number of shares of class A common stock issuable in lieu of cash dividends payable on the series C convertible preferred stock;
- . the resale of the number of shares of class A common stock issuable upon conversion of the series D convertible preferred stock; and
- . the resale of 2,700,000 shares of class A common stock issuable upon conversion of the series E convertible preferred stock, representing 150% of the shares issuable upon conversion of the series E convertible preferred stock at an assumed conversion price of \$3.50, as set forth in the redemption and exchange agreements relating to the issuance of the series E convertible preferred stock.

Because the number of shares of class A common stock may be adjusted upon the occurrence of certain events and based on the market price of our class A common stock, the number of shares that will actually be issued upon conversion or in respect of dividends may be more than the 25,563,896 shares being offered by this prospectus. The fourth and fifth columns assume the sale of all of the shares offered by each selling stockholder.

Under the certificate of designation for the series A convertible preferred stock, series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock, no selling stockholder may convert preferred shares to the extent such conversion or exercise would cause such selling stockholder, together with its affiliates, to have acquired a number of shares of class A common stock during the 60-day period ending on the date of conversion which, when added to the number of shares of class A common stock held at the beginning of such 60-day



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period, would exceed 9.99% of our then outstanding class A common stock, excluding for purposes of such determination shares of class A common stock issuable upon conversion of the preferred shares which have not been converted. The number of shares in the second column does not reflect this limitation. The selling stockholders may sell all, some or none of their shares in this offering. See "Plan of Distribution."

Name of Selling Stockholder	Number of Shares of Class A Common Stock Beneficially Owned Prior to Offering(1) (2)		Number of Shares of Class A Common Stock Beneficially Owned After Offering (1) (4)		Percentage of Shares of Class A Owned Common Stock Beneficially Owned After Offering (1) (4) (5)
		Number of Shares of Class A Common Stock Offered Hereby(3)			
HFTP Investment L.L.C. (6).....	1,901,895	2,237,752	197,683		*%
Leonardo, L.P. (7).....	4,824,554	9,996,904	0		0
Fisher Capital Ltd. (8)..	5,092,963	9,063,787	715,728		1.51
Wingate Capital Ltd. (8).....	2,160,989	4,265,453	100,972		*

\* Less than 1%.

- (1) Except as otherwise indicated, the number of shares beneficially owned is determined under rules promulgated by the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Each selling stockholder has sole voting power and investment power with respect to all shares listed as owned by that selling stockholder. No selling stockholder owns any shares of the class B common stock of MicroStrategy.
- (2) Includes 5,095,466 shares of our class A common stock issued to the selling stockholders in exchange for shares of series A convertible preferred stock held by the selling stockholders and shares of class A common stock issuable to the selling stockholders (i) upon conversion of the series A convertible preferred stock held by the selling stockholders, (ii) upon conversion of the series B convertible preferred stock, series C convertible preferred stock and series D convertible preferred stock issued to the selling stockholders upon exchange of their series A convertible preferred stock, and (iii) as dividends on such series B convertible preferred stock and series C convertible preferred stock in lieu of cash. Shares of our class A common stock issuable to the selling stockholders upon conversion of the series E convertible preferred stock are not included because such shares are not currently convertible or convertible within 60 days. Under the certificates of designations for the series A convertible preferred stock, series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock, no selling stockholder may convert preferred shares to the extent such conversion or exercise would cause such selling stockholder, together with its affiliates, to have acquired a number of shares of class A common stock during the 60-day period ending on the date of conversion which, when added to the number of shares of class A common stock held at the beginning of such 60-day period, would exceed 9.99% of our then outstanding class A common stock, excluding for purposes of such determination shares of class A common stock issuable upon conversion of

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- the preferred shares which have not been converted. The number of shares in the second column does not reflect this limitation.
- (3) Includes 5,095,466 shares of our class A common stock issued to the selling stockholders upon exchange of series A convertible preferred stock and 20,468,430 shares of class A common stock issuable to the selling stockholders upon conversion of the series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock issued to the selling stockholders upon exchange of their series A convertible preferred stock; and as dividends on such series B convertible preferred stock and series C convertible preferred stock in lieu of cash. The actual number of shares of our class A common stock offered hereby and included in the registration statement of which this prospectus is a part includes, as provided by Rule 416 under the Securities Act, such additional number of shares of common stock as may be issued or issuable upon conversion of our series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock and as dividends on the series B convertible preferred stock and series C convertible preferred stock to prevent dilution resulting from any stock split, stock dividend or similar transaction.
- (4) We do not know when or in what amounts the selling stockholders will offer shares for sale, if at all. The selling stockholders may sell any or all of the shares offered by this prospectus. Because the selling stockholders may offer all or some of the shares pursuant to this offering, and because there are currently no agreements, arrangements or understandings with respect to the sale of any of the shares that will be held by the selling stockholders after completion of the offering, we cannot estimate the number of the shares that will be held by the selling stockholders after completion of the offering. However, for purposes of this table, we have assumed that, after completion of the offering, none of the shares covered by this prospectus will be held by the selling stockholders.
- (5) Calculated based on 38,186,868 shares of class A common stock outstanding as of June 20, 2001.
- (6) Promethean Asset Management, LLC, a New York limited liability company, serves as investment manager to HFTP Investment L.L.C. and may be deemed to share beneficial ownership of the shares beneficially owned by HFTP by reason of shared power to vote and to dispose of the shares beneficially owned by HFTP. Promethean disclaims beneficial ownership of the shares beneficially owned by HFTP. Mr. James F. O'Brien, Jr. indirectly controls Promethean. Mr. O'Brien disclaims beneficial ownership of the shares beneficially owned by Promethean and HFTP. HFTP is not a registered broker-dealer. HFTP, however, is under common control with, and therefore an affiliate of, a registered broker-dealer.
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- (7) Angelo, Gordon & Co., L.P. is a general partner of Leonardo, L.P. and consequently has voting control and investment discretion over securities held by Leonardo, L.P. Angelo Gordon disclaims beneficial ownership of the shares held by Leonardo, L.P. Mr. John M. Angelo, the Chief Executive Officer of Angelo Gordon, and Mr. Michael L. Gordon, the Chief Operating Officer of Angelo Gordon, are the sole general partners of AG Partners, L.P., the sole general partner of Angelo Gordon. As a result, Mr. Angelo and Mr. Gordon may be considered beneficial owners of any shares deemed to be beneficially owned by Angelo Gordon. Leonardo, L.P. is not a registered broker-dealer. Leonardo, L.P., however, is under common control with, and therefore an affiliate of, a registered broker-dealer.
- (8) Citadel Limited Partnership is the trading manager of each of Fisher Capital Ltd. and Wingate Capital Ltd. and consequently has voting control

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and investment discretion over securities held by them. Kenneth C. Griffin indirectly controls Citadel Limited Partnership. The ownership information for Fisher Capital does not include ownership information for Wingate Capital and the ownership information for Wingate Capital does not include ownership information for Fisher Capital. Citadel Limited Partnership, Kenneth C. Griffin and Wingate Capital each disclaim ownership of the shares held by Fisher Capital. Citadel Limited Partnership, Kenneth C. Griffin and Fisher Capital each disclaim ownership of the shares held by Wingate Capital. Neither Fisher Capital nor Wingate Capital is a registered broker-dealer. Each of Fisher Capital and Wingate Capital, however, is under common control with, and therefore an affiliate of, a registered broker-dealer.

Except for ownership of class A common stock and our convertible preferred stock, no selling stockholder has had a material relationship with MicroStrategy or any of its subsidiaries within the past three years.

### PLAN OF DISTRIBUTION

We are registering shares of class A common stock:

- . issued to the selling stockholders upon exchange of series A convertible preferred stock held by the selling stockholders;
- . issuable to the selling stockholders upon conversion of the series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock issued to the selling stockholders in exchange for their series A convertible preferred stock; and
- . issuable to the selling stockholders as dividends on the series B convertible preferred stock and series C convertible preferred stock in lieu of cash,

to permit the resale of the shares of class A common stock by the holders of the series A convertible preferred stock from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling stockholders of the shares of class A common stock. We will bear all fees and expenses incident to our obligation to register the shares of class A common stock. Each of the selling stockholders purchased the series A convertible preferred stock in the ordinary course of its business and at the time the selling stockholder purchased the series A convertible preferred stock it was not a party to any agreement or other understanding, directly or indirectly, to distribute the series A convertible preferred stock or the underlying class A common stock.

The selling stockholders may sell all or a portion of the class A common stock beneficially owned by them and offered hereby from time to time directly through one or more underwriters, broker-dealers or agents. If the class A common stock is sold through underwriters or broker-dealers, the selling stockholder will be responsible for underwriting discounts or commissions or agent's commissions. The class A common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions,

- . on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale,

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- . in the over-the-counter market,
- . in transactions otherwise than on these exchanges or services or in the over-the-counter market,
- . through the writing of options, whether such options are listed on an options exchange or otherwise, or
- . through the settlement of short sales.

In connection with sales of the class A common stock or otherwise, the selling stockholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the class A common stock in the course of hedging in positions they assume. The selling stockholders may also sell shares of class A common stock short and deliver shares of class A common stock covered by this prospectus to close out short positions, provided that the short sale is made after the registration statement is declared effective and a copy of this prospectus is delivered in connection with the short sale. The selling stockholder may also loan or pledge shares of class A common stock to broker-dealers that in turn may sell such shares. If the selling stockholders effect such transactions by selling shares of class A common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling stockholders or commissions from purchasers of the shares of class A common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved).

The selling stockholders may pledge or grant a security interest in some or all of the shares of class A common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of class A common stock from time to time pursuant to the prospectus.

The selling stockholders also may transfer and donate the shares of class A common stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of the prospectus.

The selling stockholders and any broker-dealer participating in the distribution of the shares of class A common stock may be deemed to be "underwriters" within the meaning of the Securities Act, and any commissions paid, or any discounts or concessions allowed to any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of class A common stock is made, a prospectus supplement, if required, will be distributed which will set forth the aggregate amount of shares of class A common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling stockholders and any discounts, commissions or concessions allowed or reallocated or paid to broker-dealers. In addition, upon our being notified by a named selling shareholder that a donee or a pledgee intends to sell more than 500 shares, a supplement to this prospectus will be filed.

Under the securities laws of some states, the shares of class A common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of class A common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and

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is complied with.

There can be no assurance that any selling stockholder will sell any or all of the shares of class A common stock registered pursuant to the shelf registration statement, of which this prospectus forms a part.

The selling stockholders and any other person participating in such distribution will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of class A common stock by the selling stockholders and any other participating person. Regulation M may also restrict the ability of any person engaged in the distribution of the shares of class A common stock to engage in

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market-making activities with respect to the shares of class A common stock. All of the foregoing may affect the marketability of the shares of class A common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of class A common stock.

We will pay all expenses of the registration of the shares of class A common stock pursuant to the registration rights agreement estimated to be \$140,000 in total, including, without limitation, SEC filing fees and expenses of compliance with state securities or "blue sky" laws; provided, however, that the selling stockholders will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling stockholders against liabilities, including some liabilities under the Securities Act, in accordance with the registration rights agreement or the selling stockholders will be entitled to contribution. We will be indemnified by the selling stockholders against civil liabilities, including liabilities under the Securities Act that may arise from any written information furnished to us by the selling stockholders for use in this prospectus, in accordance with the related registration rights agreement or will be entitled to contribution.

Once sold under the shelf registration statement, of which this prospectus forms a part, the shares of class A common stock will be freely tradable in the hands of persons other than our affiliates.

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### TERMS OF THE SERIES A CONVERTIBLE PREFERRED STOCK REFINANCING AND OF THE SERIES B CONVERTIBLE PREFERRED STOCK, SERIES C CONVERTIBLE PREFERRED STOCK, SERIES D CONVERTIBLE PREFERRED STOCK AND SERIES E CONVERTIBLE PREFERRED STOCK

On June 19, 2000, we issued 12,500 shares of series A convertible preferred stock, \$10,000 stated value per share, in a private placement to institutional investors. The net proceeds of the offering, after expenses, were approximately \$119.5 million.

On June 14, 2001, we agreed with the holders of the series A convertible preferred stock to a refinancing of 11,850 shares of series A convertible preferred stock, leaving 650 shares of series A convertible preferred stock outstanding. We redeemed or exchanged these 11,850 shares of series A convertible preferred stock as follows:

- . \$12.5 million stated value of the series A convertible preferred stock, or 1,250 shares, were redeemed for \$12.5 million in cash;

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- . \$38.75 million stated value of the series A convertible preferred stock, or 3,875 shares, and accrued dividends on all series A convertible preferred stock redeemed or exchanged were exchanged for 5,568,466 shares of class A common stock and \$16.261 million stated value of series D convertible preferred stock with a fixed conversion price of \$5.00 per share;
- . \$33.125 million stated value of the series A convertible preferred stock, or 3,312.5 shares, were exchanged for an equivalent stated value of series B convertible preferred stock with a conversion price of \$12.50 per share, subject to adjustment at maturity if we elect to mandatorily convert these shares into class A common stock;
- . \$27.825 million stated value of the series A convertible preferred stock, or 2,782.5 shares, were exchanged for an equivalent stated value of series C convertible preferred stock, with a conversion price of \$17.50 per share, subject to adjustment at maturity if we elect to mandatorily convert these shares into class A common stock; and
- . \$6.3 million stated value of the series A convertible preferred stock, or 630 shares, were exchanged for an equivalent stated value of series E convertible preferred stock, which is not currently convertible into class A common stock, but will become convertible into class A common stock on December 12, 2001 with a conversion price per share equal to the average of the dollar volume-weighted average prices of the class A common stock during the ten consecutive trading days immediately preceding December 11, 2001.

As part of the refinancing, we have the option to redeem for cash \$1.2 million stated value of the outstanding series A convertible preferred stock, or 120 shares, until December 11, 2001, if such shares have not been converted into class A common stock. If we do not exercise our option to redeem such 120 shares, an aggregate of 650 shares of series A convertible preferred stock will remain outstanding, assuming none of such shares are converted.

### Dividends

The series B convertible preferred stock and series C convertible preferred stock carry a dividend rate of 12.5% per annum, payable beginning on the earlier of (a) October 1, 2001 and (b) the later of July 1, 2001 and the date that this registration statement is declared effective by the SEC and quarterly thereafter or upon conversion or redemption of the series B convertible preferred stock or series C convertible preferred stock. The series E convertible preferred stock carries a dividend rate of 12.5% per annum until September 12, 2001, 15% per annum from September 13, 2001 until December 11, 2001 and 17.5% per annum thereafter, accruing daily and payable in cash on a quarterly basis. At the Company's option, the dividends on the series B convertible preferred stock and series C convertible preferred stock may be paid in cash or shares of class A common stock, subject to satisfaction of certain conditions. If the Company chooses to pay dividends in shares of class A

common stock, the number of shares to be issued will be equal to the accrued dividends divided by the dividend conversion price.

For purposes of such calculation, the dividend conversion price will be equal to 95% of the average of the dollar volume-weighted average prices of a share of class A common stock during the five consecutive trading days

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immediately preceding the dividend date.

For example, if the dividend date were July 1, 2001 and we elected to pay the dividend on our series B convertible preferred stock or series C convertible preferred stock in shares of our class A common stock, assuming that 95% of the average of the dollar volume-weighted average prices of our class A common stock during the five consecutive trading days ending on July 1, 2001 was \$3.10 per share, we would have been required to issue 99 shares of class A common stock per share of series B convertible preferred stock and series C convertible preferred stock in lieu of a cash dividend, calculated as follows, where N represents the number of days since the date of the last dividend payment (assuming N is 90 days):

$$\frac{(0.125) (N/365) (\$10,000)}{\$3.10} = 99$$

For example, assuming we paid all dividends on all shares of series B convertible preferred stock and series C convertible preferred stock that may be issued to the selling stockholders over the three-year term of the securities and assuming the conversion rate of \$3.10 indicated in the illustration above remained constant, we would issue approximately 7,372,984 shares of class A common stock as dividends.

We will not have the right to pay dividends in shares of our class A common stock if a triggering event, as described below, has occurred and is continuing or if this registration statement is not effective and available on the dividend date or 10 days prior to the dividend date. Triggering events include the following:

- . the failure of a registration statement covering the resale of the shares of class A common stock underlying the series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock to be declared effective by the SEC on or prior to 335 days after the issuance date of the series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock;
- . the suspension or delisting from trading of our class A common stock on the Nasdaq National Market, the Nasdaq SmallCap Market or the New York Stock Exchange for a period of five consecutive trading days or for more than 10 trading days in any 365-day period;
- . our notice to any holder of series B convertible preferred stock, series C convertible preferred stock series D convertible preferred stock or series E convertible preferred stock of our intent not to comply with a request for conversion tendered in accordance with the terms of the certificates of designations relating to the series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock;
- . our failure to issue shares of class A common stock upon conversion prior to the 10th business day after the required date of delivery;
- . if our stockholders do not approve of the issuance of the class A common stock upon conversion of series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock in connection with the refinancing of the series A convertible preferred stock, our failure to issue shares of class A common stock after a proper request from a selling stockholder due to the limitation on the number of shares we may issue

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to comply with Nasdaq Rule 4350; or

- . our breach of any representation, warranty, covenant or other term or condition of the documents governing the redemption and exchange of the series A convertible preferred stock unless the breach would not have a material adverse effect or is cured within 10 business days after it occurs.

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### Maturity Date

The series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock mature on June 14, 2004, subject to extension in some circumstances. At maturity, the series B convertible preferred stock and series C convertible preferred stock must be redeemed or converted at our option. If we elect to redeem any series B convertible preferred stock and series C convertible preferred stock outstanding at the maturity date, the amount required to be paid will be equal to \$10,000 per share plus accrued and unpaid dividends. If we elect to convert any series B convertible preferred stock and series C convertible preferred stock outstanding at the maturity date, we will be required to issue shares in an amount determined as described below under "Conversion." At maturity, any series D convertible preferred stock outstanding must be converted into shares of class A common stock at a fixed conversion price of \$5.00 per share and any series E convertible preferred stock outstanding must be redeemed for \$10,000 per share, plus accrued and unpaid dividends.

### Conversion

We may require the selling stockholders to convert their series B convertible preferred stock and series C convertible preferred stock into shares of our class A common stock at maturity, which date may be extended under some circumstances. If we do not require the selling stockholders to convert their series B convertible preferred stock or series C convertible preferred stock, then we must redeem them. Prior to maturity, the selling stockholders have the right to convert their series B convertible preferred stock and series C convertible preferred stock into shares of our class A common stock at any time and from time to time, subject to the limitations on their percentage ownership of outstanding shares of our class A common stock described below. The number of shares of class A common stock issuable on conversion of a share of series B convertible preferred stock or a share of series C convertible preferred stock is determined by dividing the sum of \$10,000 plus accrued and unpaid dividends by the applicable conversion price as described below. If conversion occurs at the election of the holder of series B convertible preferred stock or series C convertible preferred stock, then the applicable conversion price will be the fixed conversion price of \$12.50 and \$17.50 per share, respectively, subject to certain adjustments. If we require conversion of the series B convertible preferred stock or series C convertible preferred stock at the maturity date, pursuant to the terms of the certificates of designation, the applicable conversion price will be the lower of the fixed conversion price or 95% of the average of the dollar volume-weighted average prices of the class A common stock during the 30 consecutive trading days immediately prior to the date we require such conversion.

We are required to convert any shares of series D convertible preferred stock outstanding at maturity. In addition, the selling stockholders have the right to convert their series D convertible preferred stock into shares of class A common stock at any time and from time to time, subject to certain limitations on their percentage ownership of outstanding shares of class A



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common stock. We are required to issue 2,000 shares of class A common stock upon conversion of a share of series D convertible preferred stock.

The selling stockholders have the right to convert their series E convertible preferred stock into shares of class A common stock at any time beginning on December 12, 2001, based on a conversion price equal to the average of the dollar volume-weighted average prices of the class A common stock during the ten consecutive trading days immediately preceding December 11, 2001.

The following table illustrates the number of shares of class A common stock we would be required to issue upon conversion of all shares of series B convertible preferred stock, series C convertible preferred stock and series E convertible preferred stock issued in connection with the refinancing of the series A convertible preferred stock at (1) the conversion prices of the series B convertible preferred stock and series C convertible preferred stock applicable prior to maturity and at an assumed conversion price of \$3.10 per share for the series E convertible preferred stock (the closing price of the class A common stock on June 20, 2001) and (2) at the assumed conversion prices of the series B convertible preferred stock and series C convertible preferred stock at maturity and at the assumed conversion price of \$3.10 per share for the series E convertible preferred stock and

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assuming increases of 25%, 50% and 75% in such assumed conversion prices and assuming decreases of 25%, 50% and 75% in such assumed conversion prices, and the resulting percentage of our total shares of class A common stock and class B common stock outstanding after such conversion. The table also illustrates the resulting percentage of our total shares of class A common stock outstanding after our exchange of 3,875 shares of series A convertible preferred stock for an aggregate of 5,568,466 shares of class A common stock and 3,252,200 shares of class A common stock issuable upon conversion of the series D convertible preferred stock.

Series of Preferred Stock	Conversion Price Per Share of Class A Common Stock	Number of Shares of Class A Common Stock Issuable(1)	Percentage of Common Stock after Conversion(2)
-----			
Conversion of Series B			
Convertible Preferred Stock by holders prior to maturity.....	\$12.50	2,650,000	2.89%
Conversion of Series B			
Convertible Preferred Stock by the Company at maturity(3).....	\$5.43 (+75%)	6,105,991	6.41%
	\$4.65 (+50%)	7,123,656	7.40%
	\$3.88 (+25%)	8,548,387	8.75%
	\$3.10 (0%)	10,685,484	10.71%
	\$2.33 (-25%)	14,247,312	13.78%
	\$1.55 (-50%)	21,370,968	19.34%
	\$.78 (-75%)	42,741,935	32.41%
Conversion of Series C			
Convertible Preferred Stock by holders prior to maturity.....	\$17.50	1,590,000	1.75%

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Conversion of Series C			
Convertible Preferred Stock by			
the company at maturity(3).....	\$5.43 (+75%)	5,129,032	5.44%
	\$4.65 (+50%)	5,983,871	6.29%
	\$3.88 (+25%)	7,180,645	7.46%
	\$3.10 (0%)	8,975,806	9.15%
	\$2.33 (-25%)	11,967,742	11.84%
	\$1.55 (-50%)	17,951,613	16.76%
	\$.78 (-75%)	35,903,226	28.72%
Conversion of Series D			
Convertible Preferred Stock.....	\$5.00	3,252,200	3.52%
Conversion of Series E			
Convertible Preferred Stock			
(3).....	\$5.43 (+75%)	1,161,290	1.29%
	\$4.65 (+50%)	1,354,839	1.50%
	\$3.88 (+25%)	1,625,806	1.79%
	\$3.10 (0%)	2,032,258	2.23%
	\$2.33 (-25%)	2,709,677	2.95%
	\$1.55 (-50%)	4,064,516	4.36%
	\$.78 (-75%)	8,129,032	8.36%
Class A Common Stock.....	Not Applicable	5,568,466	5.88%

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(1) The number of shares of class A common stock issuable upon conversion as set forth in the table above does not include any shares of class A common stock that may be issuable as dividends on the series B convertible preferred stock or the series C convertible preferred stock. If we were to pay dividends on the series B convertible preferred stock and series C convertible preferred stock over the three-year term thereof in shares of class A common stock, assuming a constant dividend conversion price of \$3.10, which was the closing sale price of the class A common stock on June 20, 2001, and assuming all shares of series B convertible preferred stock and series C convertible preferred stock remain outstanding for the entire three-year term, we would be required to issue an additional 7,372,984 shares of class A common stock in respect of such dividends.

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- (2) Calculated based on 38,186,868 shares of class A common stock and 50,940,101 shares of class B common stock (which is convertible into class A common stock on a one for one basis) issued and outstanding as of June 20, 2001. No holder may convert any series A convertible preferred stock, series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock or series E convertible preferred stock exceeding the number of shares which, upon giving effect to such conversion, would cause the holder, together with the holder's affiliates, to have acquired a number of shares of class A common stock during the 60-day period ending on the date of conversion which, when added to the number of shares of class A common stock held at the beginning of such 60-day period, would exceed 9.99% of our then outstanding class A common stock, excluding for purposes of such determination any shares of class A common stock issuable upon conversion of the preferred shares that have not been converted.
- (3) Based upon an assumed conversion price of \$3.10, which was the closing sale price of the class A common stock on June 20, 2001.

The fixed conversion rate for the series B convertible preferred stock and

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series C convertible preferred stock are subject to adjustment, according to a weighted-average antidilution formula, in the event that we issue additional shares of common stock or securities convertible into common stock, subject to certain exceptions, at a dilutive purchase price.

### Redemption

To the extent that we do not convert the series B convertible preferred stock and series C convertible preferred stock outstanding at maturity, and do not extend such date pursuant to the terms of the certificates of designation, we must redeem such series B convertible preferred stock and series C convertible preferred stock for cash equal to \$10,000 per share plus accrued dividends.

We can redeem the series E convertible preferred stock at any time through December 11, 2001, for 105% of the stated value plus accrued and unpaid dividends until October 27, 2001 and for 110% of the stated value plus accrued and unpaid dividends from October 28, 2001 through December 11, 2001. In addition, the holders may require us to redeem the series E convertible preferred stock beginning on July 14, 2002 for 120% of the stated value plus accrued and unpaid dividends and may require redemption of the series E convertible preferred stock prior to that date upon specified financing transactions or other events. We are required to redeem any series E convertible preferred stock outstanding at maturity for \$10,000 per share, plus accrued dividends.

If a triggering event as described under the heading "Dividends" above occurs, the holders of the series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock will have the right to require us to redeem all or a portion of any outstanding preferred shares for cash. The redemption price in such a case, with respect to each series of preferred stock, is the greater of:

- . 125% of the applicable stated value for the series B convertible preferred stock plus accrued dividends in the case of series B convertible preferred stock; or  
125% of the applicable stated value for the series C convertible preferred stock plus accrued dividends in the case of series C convertible preferred stock; or  
125% of the applicable stated value for the series E convertible preferred stock plus accrued dividends in the case of the series E convertible preferred stock; or  
the stated value of the series D convertible preferred stock in the case of the series D convertible preferred stock; or
- . the product of the number of shares of class A common stock into which the series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock are convertible multiplied by the closing sale price of our class A common stock on the day immediately before the triggering event occurs.

In the event of a merger, consolidation, a sale of all or substantially all of our assets or related transaction, each holder of the series B convertible

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preferred stock, series C convertible preferred stock and series E convertible preferred stock at its option has the right to require us to redeem all or a portion of such holder's preferred shares at a price equal to 125% of the stated value for such shares plus accrued dividends.

### Liquidation Preference

In the event of our liquidation, the holders of the series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock will be entitled to a liquidation preference before any amounts are paid to the holders of our class A common stock. The liquidation preference is equal to \$10,000 per share, plus accrued and unpaid dividends on any outstanding series B convertible preferred stock, series C convertible preferred stock and series E convertible preferred stock and \$10,000 per share on any outstanding series D convertible preferred stock.

### Voting Rights

Other than as required by law, the holders of the series B convertible preferred stock, series C convertible preferred stock, series D convertible preferred stock and series E convertible preferred stock have no voting rights except that the consent of holders of at least two-thirds of the outstanding shares of the applicable series of preferred stock would be required to effect any change in either our amended and restated certificate of incorporation or certificates of designation that would change any of the rights of the applicable series of preferred stock or to issue any other additional shares of such series of preferred stock.

## LEGAL MATTERS

The validity of the shares of class A common stock offered by this prospectus has been passed upon by Hale and Dorr LLP, Boston, Massachusetts.

## EXPERTS

The financial statements incorporated in this Registration Statement by reference to the Annual Report on Form 10-K for the year ended December 31, 2000, as amended, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

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## PART II

### INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The following table sets forth the various expenses to be incurred in connection with the sale and distribution of the securities being registered hereby, all of which will be borne by MicroStrategy Incorporated. All amounts shown are estimates except the Securities and Exchange Commission registration fee.

Filing Fee--Securities and Exchange Commission.....	\$ 18,054.50
Legal fees and expenses.....	\$100,000.00

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Accounting fees and expenses.....	\$ 20,000.00
Miscellaneous expenses.....	\$ 1,945.50
	-----
Total Expenses.....	\$140,000.00

Item 15. Indemnification of Directors and Officers.

Section 102 of the Delaware General Corporation Law allows a corporation to eliminate the personal liability of directors of a corporation to the corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director, except where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law or obtained an improper personal benefit. MicroStrategy has included such a provision in its Certificate of Incorporation.

Section 145 of the Delaware General Corporation Law provides that a corporation has the power to indemnify a director, officer, employee or agent of the corporation and certain other persons serving at the request of the corporation in related capacities against amounts paid and expenses incurred in connection with an action or proceeding to which he is or is threatened to be made a party by reason of such position, if such person shall have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal proceeding, if such person had no reasonable cause to believe his conduct was unlawful; provided that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the adjudicating court determines that such indemnification is proper under the circumstances.

MicroStrategy's certificate of incorporation provides that an officer or director of MicroStrategy will not be personally liable to MicroStrategy or its stockholders for monetary damages for any breach of his fiduciary duty as an officer or director, except in certain cases where liability is mandated by the Delaware General Corporation Law. The provision has no effect on any non-monetary remedies that may be available to MicroStrategy or its stockholders, nor does it relieve MicroStrategy or its officers or directors from compliance with federal or state securities laws. MicroStrategy's certificate of incorporation also generally provides that MicroStrategy shall indemnify, to the fullest extent permitted by law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit, investigation, administrative hearing or any other proceeding by reason of the fact that he is or was a director or officer of MicroStrategy, or is or was serving at the request of MicroStrategy as a director, officer, employee or agent of another entity, against expenses incurred by him in connection with such proceeding. An officer or director shall not be entitled to indemnification by MicroStrategy if the officer or director did not act in good faith and in a manner reasonably believed to be in, or not opposed to, the best interests of the MicroStrategy, or with respect to any criminal action or proceeding, the officer or director had reasonable cause to believe his conduct was unlawful.

MicroStrategy has purchased directors' and officers' liability insurance

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which would indemnify its directors and officers against damages arising out of certain kinds of claims which might be made against them based on their negligent acts or omissions while acting in their capacity as such.

### Item 16. Exhibits

Exhibit Number	Description
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5.1*	Opinion of Hale and Dorr LLP.
23.1	Consent of PricewaterhouseCoopers LLP.
23.2*	Consent of Hale and Dorr LLP (included in Exhibit 5.1 filed herewith).
24.1	Power of Attorney (see the signature page to this Registration Statement).

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\* To be filed by amendment.

### Item 17. Undertakings.

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act");

(ii) To reflect in the prospectus any facts or events arising after the effective date of this Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement. Notwithstanding the foregoing, any increase or decrease in the volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement;

provided, however, that paragraphs (1)(i) and (1)(ii) do not apply if the information required to be included is a post-effective amendment by those paragraphs is contained in periodic reports filed by the Company pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are incorporated by reference in this Registration Statement.

(2) That, for the purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of

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prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange

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Act) that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the indemnification provisions described herein, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of McLean, Commonwealth of Virginia, on June 28, 2001.

MicroStrategy Incorporated

/s/ Michael J. Saylor

By: \_\_\_\_\_

Michael J. Saylor  
Chief Executive Officer

### SIGNATURES AND POWER OF ATTORNEY

We, the undersigned officers and directors of MicroStrategy Incorporated, hereby severally constitute and appoint Michael J. Saylor, Sanju K. Bansal,

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Eric F. Brown, Jonathan F. Klein and Thomas S. Ward and each of them singly, our true and lawful attorneys with full power to any of them, and to each of them singly, to sign for us and in our names in the capacities indicated below any and all pre-effective and post-effective amendments to this Registration Statement on Form S-3 filed herewith and generally to do all such things in our name and behalf in our capacities as officers and directors to enable MicroStrategy Incorporated to comply with the provisions of the Securities Act of 1933, as amended, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to any and all amendments to said Registration Statement.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature -----	Title -----	Date -----
/s/ Michael J. Saylor  Michael J. Saylor	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	June 28, 2001
/s/ Eric F. Brown  Eric F. Brown	President and Chief Financial Officer (Principal Financial and Accounting Officer)	June 28, 2001
/s/ Sanju K. Bansal  Sanju K. Bansal	Director	June 28, 2001
/s/ F. David Fowler  F. David Fowler	Director	June 28, 2001

Signature -----	Title -----	Date -----
/s/ Frank A. Ingari  Frank A. Ingari	Director	June 28, 2001
Jonathan J. Ledecy	Director	June 28, 2001
/s/ Stuart B. Ross	Director	June 28, 2001



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Stuart B. Ross		
/s/ John W. Sidgmore	Director	June 28, 2001
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John W. Sidgmore		
/s/ Ralph S. Terkowitz	Director	June 28, 2001
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Ralph S. Terkowitz		

EXHIBIT INDEX

Exhibit

Number Description

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