MICROSTRATEGY INC
Form 10-Q
May 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2010

OR

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

For the transition period from to

Commission File Number 000-24435

MICROSTRATEGY INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

51-0323571

(I.R.S. Employer

Identification Number)

1861 International Drive, McLean, VA

(Address of Principal Executive Offices)

22102

(Zip Code)

(703) 848-8600

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

The number of shares of the registrant s class A common stock and class B common stock outstanding on April 26, 2010 was 9,088,066 and 2,694,362, respectively.

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FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MICROSTRATEGY INCORPORATED

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	March 31, 2010 (unaudited)	December 31, 2009 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 231,862	$ 224,769
Restricted cash and investments	1,026	549
Accounts receivable, net	43,317	56,399
Prepaid expenses and other current assets	12,363	10,861
Deferred tax assets, net	12,778	12,642
Total current assets	301,346	305,220
Property and equipment, net	54,793	54,906
Capitalized software development costs, net	11,724	13,431
Deposits and other assets	2,420	3,283
Deferred tax assets, net	5,214	6,490
Total assets	$ 375,497	$ 383,330
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 23,414	$ 28,460
Accrued compensation and employee benefits	30,306	46,277
Deferred revenue and advance payments	96,680	77,783
Deferred tax liabilities	189	115
Total current liabilities	150,589	152,635
Deferred revenue and advance payments	3,550	3,845
Other long-term liabilities	15,496	12,622
Total liabilities	169,635	169,102
Commitments and Contingencies		
Stockholders Equity		
Preferred stock undesignated, $0.001 par value; 5,000 shares authorized; no shares issued or outstanding		
Class A common stock, $0.001 par value; 330,000 shares authorized; 14,305 shares issued and 9,088 shares outstanding, and 14,302 shares issued and 9,255 shares outstanding, respectively	14	14
Class B common stock, $0.001 par value; 165,000 shares authorized; 2,694 shares issued and outstanding	3	3
Additional paid-in capital	453,248	453,170
Treasury stock, at cost; 5,217 and 5,047 shares, respectively	(380,744)	(366,191)

Accumulated other comprehensive (loss) income	(188)	604
Retained earnings	133,529	126,628
Total Stockholders Equity	205,862	214,228
Total Liabilities and Stockholders Equity	$ 375,497	$ 383,330

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

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MICROSTRATEGY INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Three Months Ended March 31,	
	2010 (unaudited)	**2009 (unaudited)**
Revenues:		
Product licenses	$ 17,954	$ 16,971
Product support and other services	75,436	63,269
Total revenues	93,390	80,240
Cost of revenues:		
Product licenses	1,915	596
Product support and other services	19,709	14,065
Total cost of revenues	21,624	14,661
Gross profit	71,766	65,579
Operating expenses:		
Sales and marketing	33,387	30,530
Research and development	12,331	7,839
General and administrative	18,460	14,344
Total operating expenses	64,178	52,713
Income from continuing operations before financing and other income and income taxes	7,588	12,866
Financing and other income:		
Interest income, net	102	145
Other income, net	2,849	536
Total financing and other income	2,951	681
Income from continuing operations before income taxes	10,539	13,547
Provision for income taxes	3,638	4,888
Income from continuing operations	6,901	8,659
Discontinued operations:		
Gain from sale of discontinued operations, net of tax provision ($0 and $11,121, respectively)		14,423
Loss from discontinued operations, net of tax benefit ($0 and $54, respectively)		(107)
Discontinued operations, net of tax		14,316

Net Income	$ 6,901	$ 22,975
Basic earnings per share (1):		
From continuing operations	$ 0.58	$ 0.73
From discontinued operations	$	$ 1.20
Basic earnings per share	$ 0.58	$ 1.93
Weighted average shares outstanding used in computing basic earnings per share	11,890	11,890
Diluted earnings per share (1):		
From continuing operations	$ 0.56	$ 0.71
From discontinued operations	$	$ 1.17
Diluted earnings per share	$ 0.56	$ 1.88
Weighted average shares outstanding used in computing diluted earnings per share	12,303	12,219

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

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

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MICROSTRATEGY INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2010	**2009**
Operating activities:		
Net income	$ 6,901	$ 22,975
Less: Income from discontinued operations, net		(14,316)
Income from continuing operations	6,901	8,659
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,182	1,770
Bad debt expense	691	222
Deferred taxes	1,162	2,823
Excess tax benefits from stock-based payment arrangements	(12)	
Changes in operating assets and liabilities:		
Accounts receivable	11,185	9,281
Prepaid expenses and other current assets	(2,473)	(609)
Deposits and other assets	781	354
Accounts payable and accrued expenses	(4,435)	(1,651)
Accrued compensation and employee benefits	(15,276)	(14,677)
Deferred revenue and advance payments	20,293	16,960
Other long-term liabilities	2,878	(23)
Net cash provided by operating activities from continuing operations	24,877	23,109
Net cash used in operating activities from discontinued operations		(472)
Net cash provided by operating activities	24,877	22,637
Investing activities:		
Purchases of property and equipment	(1,411)	(1,131)
Capitalized software development costs		(4,218)
Decrease in restricted cash and investments	275	23
Net cash used in investing activities from continuing operations	(1,136)	(5,326)
Net cash provided by investing activities from discontinued operations		24,546
Net cash (used in) provided by investing activities	(1,136)	19,220
Financing activities:		
Proceeds from sale of class A common stock under exercise of employee stock options	60	19
Excess tax benefits from stock-based payment arrangements	12	
Purchases of treasury stock	(14,553)	
Distribution to Alarm.com minority shareholders		(60)
Net cash used in financing activities from continuing operations	(14,481)	(41)

Net cash provided by financing activities from discontinued operations		
Net cash used in financing activities	(14,481)	(41)
Effect of foreign exchange rate changes on cash and cash equivalents	(2,167)	(2,538)
Net increase in cash and cash equivalents	7,093	39,278
Cash and cash equivalents, beginning of period	224,769	122,915
Cash and cash equivalents, end of period	$ 231,862	$ 162,193

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

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MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(1) Basis of Presentation

Except for the consolidated balance sheet of MicroStrategy Incorporated (MicroStrategy or the Company) as of December 31, 2009, which is derived from audited financial statements, the accompanying consolidated financial statements are unaudited. In the opinion of management, all adjustments necessary for a fair statement of such financial position and results of operations have been included. All such adjustments are of a normal recurring nature unless otherwise disclosed. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements and notes are presented as required by Form 10-Q and do not contain certain information included in the Company s annual financial statements and notes. These financial statements should be read in conjunction with the Company s audited financial statements and the notes thereto filed with the Securities and Exchange Commission (SEC) in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

(2) Restricted Cash and Investments

Restricted cash and investments consists of cash and investment balances restricted in use by contractual obligations with third parties.

On March 15, 2005, the Company entered into a security agreement with a bank under which the Company posted cash to secure existing letters of credit. These letters of credit are used as security deposits for office leases and collateral for performance bonds. The Company may invest the cash collateral under the security agreement in certain permitted investments. As of March 31, 2010 and December 31, 2009, the Company had $0.7 million and $1.0 million, respectively, in cash collateral posted under the security agreement, all of which was invested in money market funds that are included in restricted cash and investments or deposits and other assets in the accompanying balance sheets, depending on whether the contractual obligation for which the collateral is posted is short term or long term, respectively.

(3) Accounts Receivable

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

	March 31, 2010	December 31, 2009
Billed and billable	$ 97,378	$ 130,714
Less: unpaid deferred revenue	(50,288)	(70,761)
	47,090	59,953
Less: allowance for doubtful accounts	(3,773)	(3,554)
	$ 43,317	$ 56,399

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

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MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(4) Deferred Revenue and Advance Payments

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

	March 31, 2010	December 31, 2009
Current:		
Deferred product licenses revenue	$ 12,269	$ 11,726
Deferred product support revenue	118,714	120,389
Deferred other services revenue	13,786	14,363
	144,769	146,478
Less: unpaid deferred revenue	(48,089)	(68,695)
	$ 96,680	$ 77,783
Non-current:		
Deferred product licenses revenue	$ 535	$ 542
Deferred product support revenue	4,965	5,090
Deferred other services revenue	249	279
	5,749	5,911
Less: unpaid deferred revenue	(2,199)	(2,066)
	$ 3,550	$ 3,845

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

(5) Litigation

The Company is involved in various legal proceedings arising in the normal course of business. Although the outcomes of these legal proceedings are inherently difficult to predict, management does not expect the resolution of these legal proceedings to have a material adverse effect on its financial position, results of operations or cash flows.

(6) Commitments and Contingencies

In January 2010, the Company entered into a lease for approximately 142,000 square feet of office space at a new location in Northern Virginia that will serve as our new corporate headquarters. The new lease provides for an abatement of base rent until March 2011. The term of the new lease expires in December 2020.

In February 2010, the Company s corporate aircraft was damaged when the hangar space that the Company leases at Dulles International Airport to house the aircraft collapsed during snowfall in the Washington, DC metropolitan area. The Company carries property insurance on the aircraft. The Company s ability to assess the damage to the aircraft has been impeded due to the state of the collapsed hangar in which the aircraft remains detained. As a result, the Company is not able at this time to reasonably estimate the potential loss or any potential insurance recovery

related to this event.

From time to time, the Company enters into certain types of contracts that require it to indemnify parties against third party claims. These contracts primarily relate to agreements under which the Company has agreed to indemnify customers and partners for claims arising from intellectual property infringement. The conditions of these obligations vary and generally a maximum obligation is explicitly stated. Because the

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MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

conditions of these obligations vary and the maximum is not always explicitly stated, the overall maximum amount of the Company s indemnification obligations cannot be reasonably estimated. Historically, the Company has not been obligated to make significant payments for these obligations, and as such has not recorded an indemnification liability on its balance sheets as of March 31, 2010 or December 31, 2009.

(7) Treasury Stock

On July 28, 2005, the Company announced that its Board of Directors had authorized the Company s repurchase of up to an aggregate of $300.0 million of its class A common stock from time to time on the open market (the 2005 Share Repurchase Program). On April 29, 2008, the Company s Board of Directors amended the 2005 Share Repurchase Program to increase the amount of class A common stock that the Company is authorized to repurchase from $300.0 million to $800.0 million in the aggregate. The term of the 2005 Share Repurchase Program was also extended to April 29, 2013, although the program may be suspended or discontinued by the Company at any time. The timing and amount of any shares repurchased will be determined by the Company s management based on its evaluation of market conditions and other factors. The 2005 Share Repurchase Program may be funded using the Company s working capital, as well as proceeds from any credit facilities and other borrowing arrangements which the Company may enter into in the future. For the three months ended March 31, 2010, the Company repurchased an aggregate of 169,547 shares of its class A common stock at an average price per share of $85.83 and an aggregate cost of $14.6 million pursuant to the 2005 Share Repurchase Program. As of March 31, 2010, the Company had repurchased an aggregate of 2,639,020 shares of its class A common stock at an average price per share of $95.05 and an aggregate cost of $250.9 million pursuant to the 2005 Share Repurchase Program.

All of the amounts above relating to average price per share and aggregate cost include broker commissions.

(8) Income Taxes

The Company and its subsidiaries conduct business in the U.S. and various foreign countries and are subject to taxation in numerous domestic and foreign jurisdictions. As a result of its business activities, the Company files tax returns that are subject to examination by various federal, state, local, and foreign tax authorities. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or foreign income tax examination by tax authorities for years before 2000; however, due to its use of federal and state net operating loss (NOL) and tax credit carryovers in the U.S., U.S. tax authorities may attempt to reduce or fully offset the amount of NOL or tax credit carryovers from tax years ending in 1999 and forward that were used in later tax years. The Company is currently under tax examination in Germany and the United Kingdom.

As of March 31, 2010, the Company has recorded in other long term liabilities an amount for uncertain income tax positions in the amount of $13.2 million. If recognized, $12.4 million of these unrecognized tax benefits would impact the effective tax rate. Over the next 12 months, the amount of the Company s net liability for unrecognized tax benefits could increase between $2.0 and $3.0 million due to the Company s international operations. The Company recognizes estimated accrued interest related primarily to unrecognized income tax benefits in the provision for income tax accounts. Penalties relating to income taxes, if incurred, would also be recognized as a component of the Company s provision for income taxes. As of March 31, 2010, the amount of accrued interest expense on unrecognized income tax benefits was not significant.

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MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

	March 31, 2010	December 31, 2009
Deferred tax assets	$ 22,354	$ 23,927
Valuation allowance	(4,551)	(4,910)
Deferred tax assets, net of valuation allowance	$ 17,803	$ 19,017

The valuation allowance as of March 31, 2010 and December 31, 2009 primarily relates to foreign net operating loss carryforwards and other foreign deferred tax assets. The Company has determined that there is insufficient positive evidence that it is more likely than not that such deferred tax assets will be realized.

The Company has estimated its annual effective tax rate for the full fiscal year 2010 and applied that rate to its income before income taxes in determining its provision for income taxes for the three months ended March 31, 2010. The Company also records discrete items in each respective period as appropriate. For the three months ended March 31, 2010 and 2009, the Company s consolidated effective tax rate from continuing operations was 34.5% and 36.1%, respectively. The Company s effective tax rate from continuing operations for the three months ended March 31, 2010 decreased as compared to the three months ended March 31, 2009, due primarily to an increased proportion of foreign income taxed at lower rates and the benefit derived from the release of foreign valuation allowances.

Except as discussed below, the Company intends to indefinitely reinvest its undistributed earnings of certain foreign subsidiaries. Therefore, the annualized effective tax rate applied to the Company s pre-tax income does not include any provision for U.S. federal and state income taxes on the amount of the undistributed foreign earnings. U.S. federal tax laws, however, require the Company to include in its U.S. taxable income certain investment income earned outside of the U.S. in excess of certain limits (Subpart F deemed dividends). Because Subpart F deemed dividends are already required to be recognized in the Company s U.S. federal income tax return, the Company regularly repatriates Subpart F deemed dividends to the U.S. and no additional tax is incurred on the distribution.

In determining the Company s provision for income taxes, net deferred tax assets, liabilities and valuation allowances, management is required to make judgments and estimates related to projections of domestic and foreign profitability, the timing and extent of the utilization of net operating loss carryforwards, applicable tax rates, transfer pricing methods, and prudent and feasible tax planning strategies. As a multinational company, the Company is required to calculate and provide for estimated income tax liabilities for each of the tax jurisdictions in which it operates. This process involves estimating current tax obligations and exposures in each jurisdiction as well as making judgments regarding the future recoverability of deferred tax assets. Changes in the estimated level of annual pre-tax income, changes in tax laws particularly related to the utilization of net operating losses in various jurisdictions, and changes resulting from tax audits can all affect the overall effective income tax rate which, in turn, impacts the overall level of income tax expense and net income.

Judgments and estimates related to the Company s projections and assumptions are inherently uncertain; therefore, actual results could differ materially from projections. The timing and manner in which the Company will use research and development tax credit carryforward tax assets, alternative minimum tax credit carryforward tax assets, and foreign tax credit carryforward tax assets in any year, or in total, may be limited by provisions of the Internal Revenue Code regarding changes in the Company s ownership. Currently, the Company expects to use the tax assets, subject to Internal Revenue Code limitations, within the carryforward periods. Valuation allowances have been established where the Company has concluded that it is not more likely than not that such deferred tax assets are realizable.

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(9) Share-Based Compensation

The Company has share-based compensation plans under which directors, officers, employees and other eligible participants have previously received stock option awards to purchase the Company s class A common stock. All stock options granted under the Company s stock plans have terms of five to ten years and generally vest ratably over five years. The Company had 2.5 million shares of class A common stock authorized for option grants as of March 31, 2010. The Company has not granted any new share-based awards to purchase the Company s class A common stock since the first quarter of 2004.

MicroStrategy Incorporated s subsidiary, Angel.com Incorporated (Angel.com), has a stock incentive plan under which employees, officers, directors, consultants and advisors of (i) Angel.com, (ii) any present or future parent or subsidiary corporation of Angel.com, (iii) any present or future subsidiary corporation of any present or future parent corporation of Angel.com, and (iv) any other business venture in which Angel.com or any present or future parent corporation of Angel.com has a controlling interest, may be granted options, restricted stock awards and other awards with respect to, in the aggregate, up to 1,500,000 shares of the class A common stock of Angel.com. During the three months ended March 31, 2010 and 2009, Angel.com did not grant any options to purchase shares of class A common stock of Angel.com. Angel.com had 0.6 million shares of its class A common stock authorized for option grants as of March 31, 2010.

Share-based compensation expense for the three months ended March 31, 2010 and 2009 was not significant.

(10) Comprehensive Income

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

The Company s comprehensive income (in thousands) consisted of the following for the periods indicated:

	Three Months Ended March 31,	
	2010	**2009**
Net income	$ 6,901	$ 22,975
Foreign currency translation adjustment	(791)	(418)
Unrealized loss on short-term investments, net of applicable taxes	(1)	
Comprehensive income	$ 6,109	$ 22,557

(11) Common Equity and Earnings per Share

The Company has two classes of common stock: class A common stock and class B common stock. Holders of class A common stock generally have the same rights, including rights to dividends, as holders of class B common stock, except that holders of class A common stock have one vote per share while holders of class B common stock have ten votes per share. Each share of class B common stock is convertible at any time, at the option of the holder, into one share of class A common stock. As such, basic and fully diluted earnings per share for class A and class B common stock are the same. The Company has never declared or paid any cash dividends on either class A or class B common stock.

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MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Potential common shares are included in the diluted earnings per share calculation when dilutive. Potential common shares consisting of common stock issuable upon exercise of outstanding employee stock options are computed using the treasury stock method.

(12) Discontinued Operations

In March 2008, in connection with its consideration of strategic alternatives relating to its non-core Alarm.com business, the Company committed to a plan to sell this business. The Company made the decision to sell Alarm.com in order to focus its resources on its core competency of business intelligence software and services. On February 13, 2009, the Company completed the sale of its equity interest in Alarm.com for consideration to the Company of $24.5 million in cash net of post-closing purchase price adjustments and transaction costs totaling $3.3 million in the aggregate. The sale resulted in a gain of $14.4 million, net of tax.

The following table summarizes the revenues, pre-tax gain on sale and pre-tax loss (in thousands) generated by the Alarm.com business for the three months ended March 31, 2009:

	Three Months Ended March 31, 2009
Revenues	$ 2,217
Pre-tax gain on sale	$ 25,544
Pre-tax loss	$ (161)

(13) Segment Information

The Company operates in one reportable segment with two business units business intelligence software and services, and other. The business unit Other includes the Company s Angel.com business, which provides interactive voice response services. The following summary discloses total revenues and long-lived assets, excluding long-term investments and long-term deferred tax assets (in thousands), according to geographic region:

	Business Intelligence Software and Services			Other	
	Domestic	EMEA	Other Regions	Domestic	Consolidated
Geographic regions:					
Three months ended March 31, 2010					
Total revenues	$ 52,565	$ 27,577	$ 9,150	$ 4,098	$ 93,390
Long-lived assets	63,055	2,743	2,008	1,131	$ 68,937
Three months ended March 31, 2009					
Total revenues	$ 45,016	$ 25,584	$ 6,981	$ 2,659	$ 80,240
Long-lived assets	57,066	2,917	1,981	1,554	$ 63,518

The domestic region consists of the United States and Canada. The EMEA region includes operations in Europe, the Middle East and Africa. The other regions include all other foreign countries, generally comprising Latin America and the Asia Pacific region. For the three months ended March 31, 2010 and 2009, no individual foreign country accounted for 10% or more of total consolidated revenues.

As of March 31, 2010 and 2009, no more than 10% of the Company s consolidated assets were concentrated in any one country outside of the United States. For the three months ended March 31, 2010 and 2009, no individual customer accounted for 10% or more of total consolidated revenues.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). For this purpose, any statements contained herein that are not statements of historical fact, including without limitation, certain statements regarding industry prospects and our results of operations or financial position, may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects, and similar expressions are intended to identify forward-looking statements. The important factors discussed below under Item 1A. Risk Factors, among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. Such forward-looking statements represent management s current expectations and are inherently uncertain. Investors are warned that actual results may differ from management s expectations.

Overview

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

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

Our core business intelligence (BI) business derives its revenues from product licenses and product support and other services. Product licenses revenues are derived from the sale of software licenses for our MicroStrategy 9 business intelligence platform and related products. We license our software to end users through our direct sales organization and through indirect sales channels, such as resellers, systems integrators and original equipment manufacturers, or OEMs. Our arrangements with customers typically include: (a) an end user license fee paid for the use of our products in perpetuity or over a specified term; (b) an annual maintenance agreement that provides for software updates and upgrades and technical support for an annual fee; and (c) a services work order for implementation, consulting and training, generally for a fee determined on a time-and-materials basis or, in certain circumstances, a fixed-fee.

For the three months ended March 31, 2010, we operated one non-core business, Angel.com, which focuses outside of the BI software and services market. For the three months ended March 31, 2009, we operated two non-core businesses which focused outside of the BI software and services market Alarm.com, which we operated during a portion of such period, and Angel.com, which we operated during all of such period. Alarm.com was a provider of web-enabled residential and commercial security and activity monitoring technology, and Angel.com is a provider of interactive voice response services.

On February 13, 2009, we completed the sale of our equity interest in Alarm.com for consideration of $24.5 million in cash net of post-closing purchase price adjustments and transaction costs totaling $3.3 million in the aggregate. The sale resulted in a gain of $14.4 million, net of tax. Accordingly, in our consolidated statements of operations, we classified the operations of the Alarm.com business as income from discontinued operations, net of tax, because we did not have significant continuing involvement or cash flows from this business following the divestiture.

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The following table sets forth certain operating highlights (in thousands) for the three months ended March 31, 2010 and 2009:

	Core BI Business Three Months Ended March 31,		Angel.com Three Months Ended March 31,		Consolidated Three Months Ended March 31,	
	2010	2009	2010	2009	2010	2009
Revenues						
Product licenses	$ 17,954	$ 16,971	$	$	$ 17,954	$ 16,971
Product support and other services	71,338	60,610			71,338	60,610
Angel.com services			4,098	2,659	4,098	2,659
Total revenues	**89,292**	**77,581**	**4,098**	**2,659**	**93,390**	**80,240**
Cost of revenues						
Product licenses	1,915	596			1,915	596
Product support and other services	18,155	13,027			18,155	13,027
Angel.com services			1,554	1,038	1,554	1,038
Total cost of revenues	**20,070**	**13,623**	**1,554**	**1,038**	**21,624**	**14,661**
Gross profit	**69,222**	**63,958**	**2,544**	**1,621**	**71,766**	**65,579**
Operating expenses						
Sales and marketing	31,887	29,358	1,500	1,172	33,387	30,530
Research and development	11,658	6,827	673	1,012	12,331	7,839
General and administrative	17,946	13,907	514	437	18,460	14,344
Total operating expenses	**61,491**	**50,092**	**2,687**	**2,621**	**64,178**	**52,713**
Income (loss) from operations	**$ 7,731**	**$ 13,866**	**$ (143)**	**$ (1,000)**	**$ 7,588**	**$ 12,866**

The business intelligence market is highly competitive and our results of operations depend on our ability to market and sell product offerings that provide customers with greater value than those offered by our competitors. Organizations recently have sought, and we expect may continue to seek, to standardize their various business intelligence applications around a single software platform. This trend presents both opportunities and risks for our business. It offers us the opportunity to increase the size of transactions with new customers and to expand the size of our business intelligence installations with existing customers. On the other hand, it presents the risk that we may not be able to penetrate accounts where a competitor currently is or may become the incumbent business intelligence application provider. In addition, companies with industry leading positions in certain software markets, such as Microsoft, Oracle, IBM and SAP AG, have incorporated business intelligence capabilities into their product suites. As a result, our products need to be sufficiently differentiated from these bundled software offerings to create customer demand for our platform and products.

To address these opportunities and challenges, we are implementing a number of initiatives, including:

- concentrating our research and development efforts on maintaining our position as a technology leader by continuing to innovate and lead in enterprise business intelligence, improving the capability of our products to efficiently handle the ever increasing volume of data and user scalability needs of our current and future customers, and adding analytical and end user features to support the increasing levels of sophistication in our customers business intelligence needs and applications, such as the incorporation of dynamic enterprise dashboards to our interfaces;

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- forming a High Performance and Scalability Lab, creating a dedicated performance engineering team, and focusing specific research and development efforts on providing our customers with the highest levels of performance for BI applications of all sizes;

- developing and offering mobile application platforms for creating and deploying BI applications to users of mobile devices;

- widening the availability of our business intelligence software through the launch of MicroStrategy Reporting Suite, a free reporting software bundle targeted at departmental reporting applications, which features sophisticated reporting capabilities that enable the rapid deployment and delivery of operational and analytical reports, and also adopting new licensing and product configuration policies to give small and departmental users an easy point of entry into MicroStrategy tools; and

- realigning our global sales and services organizations and focusing on building new customer relationships, as well as expanding and strengthening our existing customer base.

As part of these initiatives, we anticipate significantly increasing our headcount during 2010 to expand our research and development, sales, consulting and product support organizations. As a result, we expect our cost of revenues and operating expenses will continue to increase during 2010.

General worldwide economic conditions have experienced a significant prolonged downturn and, despite some signs of economic recovery, remain uncertain. These conditions have caused some of our customers and potential customers to slow spending on our products and services, which may delay and lengthen sales cycles. In addition, customers may delay or cancel information technology projects or seek to lower their costs by renegotiating vendor contracts. Customers with excess information technology resources may seek to develop in-house software solutions rather than obtain those solutions from us. Moreover, competitors may respond to market conditions by lowering prices and attempting to lure away our customers.

In January 2010, the Company entered into a lease for approximately 142,000 square feet of office space at a new location in Northern Virginia that will serve as our new corporate headquarters. The lease provided for the prepayment of the first month s base rent upon execution of the lease, and granted an abatement of base rent until March 2011. Notwithstanding the rent abatement, we will recognize lease expense ratably over the term of the lease. As we will continue to pay rent and recognize lease expense on our existing corporate headquarters until late 2010, we expect a one-time increase in operating expenses of approximately $5.1 million for the remainder of the year.

In February 2010, our corporate aircraft was damaged when the hangar space that we lease at Dulles International Airport to house the aircraft collapsed during snowfall in the Washington, DC metropolitan area. We carry property insurance on the aircraft. Our ability to assess the damage to the aircraft has been impeded due to the state of the collapsed hangar in which the aircraft remains detained. As a result, we are not able at this time to reasonably estimate the potential loss or any potential insurance recovery related to this event.

We base our internal operating expense forecasts on expected revenue trends and strategic objectives. Many of our expenses, such as office leases and certain personnel costs, are relatively fixed. We may be unable to adjust spending quickly enough in any particular period to offset any unexpected revenue shortfall in that period. Accordingly, any shortfall in revenue may cause significant variation in our operating results. We therefore believe that quarter-to-quarter comparisons of our operating results may not be a good indication of our future performance.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States.

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and equity and disclosure of contingent assets and liabilities

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at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates, particularly estimates relating to revenue recognition, allowance for doubtful accounts, valuation of property and equipment, litigation and contingencies and valuation of net deferred tax assets, have a material impact on our financial statements and are discussed in detail throughout our analysis of the results of operations discussed below.

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

MicroStrategy does not have any material ownership interest in any special purpose or other entities that are not wholly-owned and/or consolidated into our consolidated financial statements. Additionally, MicroStrategy does not have any material related party transactions as defined under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic No. 850, Related Party Disclosures .

For a more detailed explanation of the judgments made in these areas and a discussion of our accounting estimates and policies, refer to Critical Accounting Estimates included in Item 7 and Summary of Significant Accounting Policies (Note 2) included in Item 15 of our Annual Report on Form 10-K for the year ended December 31, 2009. Since December 31, 2009, there have been no significant changes to our critical accounting estimates and policies.

Impact of Foreign Currency Exchange Rate Fluctuations on Results of Operations

We conduct a significant portion of our business in currencies other than the U.S. dollar, the currency in which we report our consolidated financial statements. Historically, we have generated a significant portion of our revenues and incurred a significant portion of our expenses in euros and British pounds sterling. As currency rates change from quarter to quarter and year over year, our results of operations may be impacted. The table below summarizes the impact (in thousands) of fluctuations in foreign currency exchange rates on certain components of our consolidated statements of operations by showing the increase (decrease) in revenues or expenses, as applicable, from the prior year.

	Three Months Ended March 31,	
	2010	2009
International product licenses revenues	$ 567	$ (1,131)
International product support revenues	1,685	(3,427)
International other services revenues	621	(1,211)
Cost of product support revenues	69	(201)
Cost of other services revenues	647	(1,001)
Sales and marketing expenses	1,159	(2,579)
General and administrative expenses	344	(678)

The term international refers to operations outside of the United States and Canada. For example, if there had been no change to the foreign currency exchange rates from 2009 to 2010, international product licenses revenues would have been $7.4 million rather than $8.0 million for the three months ended March

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31, 2010. If there had been no change to foreign currency exchange rates from 2009 to 2010, sales and marketing expenses for our core BI business would have been $30.7 million rather than $31.9 million for the three months ended March 31, 2010.

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Results of Operations

Comparison of the three months ended March 31, 2010 and 2009

Revenues

Except as otherwise indicated herein, the term domestic refers to operations in the United States and Canada, and the term international refers to operations outside of the United States and Canada.

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

	Three Months Ended March 31,		%
	2010	2009	Change
Product Licenses Revenues:			
Domestic	$ 9,986	$ 8,284	20.5%
International	7,968	8,687	-8.3%
Total product licenses revenues	$ 17,954	$ 16,971	5.8%

	Three Months Ended March 31,	
	2010	2009
Product Licenses Transactions with Recognized Licenses Revenue in the Applicable Period:		
Above $1.0 million of licenses revenue recognized	0	1
From $500,000 to $1.0 million of licenses revenue recognized	2	4
Total	2	5
Domestic:		
Above $1.0 million of licenses revenue recognized	0	0
From $500,000 to $1.0 million of licenses revenue recognized	2	2
Total	2	2
International:		
Above $1.0 million of licenses revenue recognized	0	1
From $500,000 to $1.0 million of licenses revenue recognized	0	2
Total	0	3

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The following table sets forth the recognized revenue (in thousands) attributable to product licenses transactions, grouped by size, for the periods indicated:

	Three Months Ended March 31,		%
	2010	2009	Change
Product Licenses Revenue Recognized in the Applicable Period (in thousands):			
Above $1.0 million of licenses revenue recognized	$	$ 2,177	-100.0%
From $500,000 to $1.0 million of licenses revenue recognized	1,538	2,401	-35.9%
Below $500,000 of licenses revenue recognized	16,416	12,393	32.5%
Total	17,954	16,971	5.8%
Domestic:			
Above $1.0 million of licenses revenue recognized			0.0%
From $500,000 to $1.0 million of licenses revenue recognized	1,538	1,104	39.3%
Below $500,000 of licenses revenue recognized	8,448	7,180	17.7%
Total	9,986	8,284	20.5%
International:			
Above $1.0 million of licenses revenue recognized		2,177	-100.0%
From $500,000 to $1.0 million of licenses revenue recognized		1,297	-100.0%
Below $500,000 of licenses revenue recognized	7,968	5,213	52.8%
Total	$ 7,968	$ 8,687	-8.3%

For the three months ended March 31, 2010 and 2009, product licenses transactions with at least $500,000 of recognized revenue represented 8.6% and 27.0%, respectively, of our product licenses revenues. For the three months ended March 31, 2010, our top three product licenses transactions totaled $2.0 million of recognized revenue, compared to $3.5 million for the three months ended March 31, 2009, or 11.3% and 20.5% of total product licenses revenues, respectively.

Product licenses revenues increased 5.8% for the three months ended March 31, 2010, as compared to the same period in the prior year, due primarily to an increase in the average deal size of transactions below $500,000 of recognized revenue and favorable changes in foreign currency exchange rates partially offset by a decrease in international transactions with at least $500,000 of recognized revenue.

Domestic product licenses revenues. Domestic product licenses revenues increased 20.5% for the three months ended March 31, 2010, as compared to the same period in the prior year, due primarily to an increase in the average deal size of domestic transactions.

International product licenses revenues. International product licenses revenues decreased 8.3% for the three months ended March 31, 2010, as compared to the same period in the prior year, due to a decrease in the number of international transactions with at least $500,000 of recognized revenue, partially offset by favorable changes in foreign currency exchange rates and an increase in the average deal size of transactions below $500,000 of recognized revenue.

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

	March 31,		%
	2010	2009	Change

Product Support and Other Services Revenues:			
Domestic	$ 28,888	$ 26,782	7.9%
International	21,101	17,751	18.9%
Total product support revenues	49,989	44,533	12.3%
Consulting	17,726	12,799	38.5%
Education	3,623	3,278	10.5%
Total product support and other services revenues	$ 71,338	$ 60,610	17.7%

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Product support revenues. Product support revenues are derived from providing technical software support and software updates and upgrades to customers. Product support revenues are recognized ratably over the term of the contract, which in most cases is one year.

Both domestic and international product support revenues increased for the three months ended March 31, 2010, as compared to the same period in the prior year. Contributing to this increase was a 12.6% growth in the number of technical support contracts, which includes a high percentage of maintenance renewals from existing contracts, and favorable changes in foreign currency exchange rates, partially offset by a decrease in average annual prices.

Consulting revenues. Consulting revenues are derived from helping customers plan and execute the deployment of our software. Consulting revenues increased for the three months ended March 31, 2010, as compared to the same period in the prior year, due to an increase in billable hours and favorable changes in foreign currency exchange rates, partially offset by a decrease in the average hourly rate.

Education revenues. Education revenues are derived from the education and training that we provide to our customers to enhance their ability to fully utilize the features and functionality of our software. Education revenues increased for the three months ended March 31, 2010, as compared to the same period in the prior year, due primarily to an increase in average training prices and favorable changes in foreign currency exchange rates, partially offset by a decrease in the number of students trained.

Angel.com revenues. The following table sets forth Angel.com revenues (in thousands) and percentage change for the periods indicated:

	Three Months Ended March 31,		%
	2010	2009	Change
Angel.com services	4,098	2,659	54.1%

Angel.com services revenues increased for the three months ended March 31, 2010, as compared to the same period in the prior year, due primarily to an increase in the number of customers, an increase in the number of higher-value contracts and additional services offered.

Costs and Expenses

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

	Three Months Ended March 31,		%
	2010	2009	Change
Cost of Revenues:			
Product licenses	$ 1,915	$ 596	221.3%
Product support	2,805	2,602	7.8%
Consulting	13,638	9,091	50.0%
Education	1,712	1,334	28.3%
Angel.com services	1,554	1,038	49.7%
Total cost of revenues	$ 21,624	$ 14,661	47.5%

Cost of product licenses revenues. Cost of product licenses revenues consists of amortization of capitalized software development costs and the costs of product manuals, media, and royalties paid to third-party software vendors. Capitalized software development costs are amortized over a useful life of three years.

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The increase in cost of product licenses revenues for the three months ended March 31, 2010, as compared to the same period in the prior year, was primarily attributable to the increase in amortization of capitalized software development costs related to the release of MicroStrategy 9 in March 2009. We expect to amortize the remaining balance of $11.7 million of capitalized software development costs related to the development of our MicroStrategy 9 platform ratably over the three-year period following the release.

Cost of product support revenues. Cost of product support revenues consists of product support personnel and related overhead costs.

The increase in cost of product support revenues for the three months ended March 31, 2010, as compared to the same period in the prior year, was primarily attributable to an increase in staffing levels. Product support headcount increased 8.0% to 121 at March 31, 2010 from 112 at March 31, 2009.

Cost of consulting revenues. Cost of consulting revenues consists of personnel and related overhead costs. Cost of consulting revenues increased for the three months ended March 31, 2010, as compared to the same period in the prior year, with 53.3% of the increase attributable to an increased usage in billable subcontractors, 33.2% of the increase attributable to an increase in compensation and related costs due to an increase in staffing levels and 7.3% of the increase attributable to an increase in travel and entertainment expenditures. Consulting headcount increased 45.0% to 448 at March 31, 2010 from 309 at March 31, 2009.

Cost of education revenues. Cost of education revenues consists of personnel and related overhead costs. The increase in cost of education revenues for the three months ended March 31, 2010, as compared to the same period in the prior year, was primarily attributable to an increase in staffing levels and an increase in translation services for our education materials. Education headcount increased 14.0% to 49 at March 31, 2010 from 43 at March 31, 2009.

Cost of Angel.com services revenues. Cost of Angel.com services revenues includes hardware and telephony costs, personnel and related overhead costs. The increase in cost of Angel.com services revenues for the three months ended March 31, 2010, as compared to the same period in the prior year, was due primarily to an increase in staffing levels. Angel.com consulting and technical support headcount increased 90.0% to 19 at March 31, 2010 from 10 at March 31, 2009.

Sales and marketing, general and administrative, and other operating expenses for core BI business. The following table sets forth (in thousands) sales and marketing, general and administrative and other operating expenses for our core BI business and percentage changes for the periods indicated:

	Three Months Ended March 31,		%
	2010	2009	Change
Sales and marketing	$ 31,887	$ 29,358	8.6%
General and administrative	17,946	13,907	29.0%
Total	$ 49,833	$ 43,265	15.2%

Sales and marketing expenses for core BI business. Sales and marketing expenses for our core BI business consists of personnel costs, commissions, office facilities, travel, advertising, public relations programs and promotional events, such as trade shows, seminars and technical conferences.

Sales and marketing expenses increased for the three months ended March 31, 2010, as compared to the same period in the prior year, with 93.8% of the increase attributable to an increase in compensation and related costs due to higher compensation levels and increased variable compensation. Sales and marketing headcount decreased 2.5% to 595 at March 31, 2010 from 610 at March 31, 2009.

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General and administrative expenses for core BI business. General and administrative expenses consists of personnel and other costs of our executive, finance, human resources, information systems and administrative departments, as well as third-party consulting, legal and other professional fees.

General and administrative expenses increased $4.0 million for the three months ended March 31, 2010, as compared to the same period in the prior year, with 33.4% of the increase attributable to an increase in compensation and related costs due to higher compensation levels, 27.3% of the increase attributable to an increase in rent expense related to the new headquarters lease, 23.9% of the increase attributable to an increase in recruiting costs, 8.1% of the increase attributable to an increase in depreciation expense related to the corporate aircraft, and 4.6% of the increase attributable to an increase in shipping, printing and office supply costs. General and administrative headcount increased 4.9% to 341 at March 31, 2010 from 325 at March 31, 2009.

Angel.com sales and marketing and general and administrative expenses. The following table sets forth sales and marketing and general and administrative expenses (in thousands) for our Angel.com business and percentage changes for these expenses for the periods indicated:

	Three Months Ended March 31,		%
	2010	2009	Change
Sales and marketing	$ 1,500	$ 1,172	28.0%
General and administrative	514	437	17.6%
Total	$ 2,014	$ 1,609	25.2%

The increase in Angel.com sales and marketing expenses for the three months ended March 31, 2010, as compared to the same period in the prior year, was primarily attributable to an increase in marketing and compensation and related costs due to the increase in sales. Sales and marketing headcount increased 4.3% to 24 at March 31, 2010 from 23 at March 31, 2009. The increase in Angel.com general and administrative expenses for the three months ended March 31, 2010, as compared to the same period in the prior year, was primarily attributable to an increase in compensation and related costs due to an increase in staffing levels. General and administrative headcount increased 100.0% to 4 at March 31, 2010 from 2 at March 31, 2009.

Research and development expenses. Research and development expenses consists of the personnel costs for our software engineering personnel, depreciation of equipment and other related costs.

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

	Three Months Ended March 31,		%
	2010	2009	Change
Gross research and development expenses:			
Core research and development activities	$ 11,658	$ 11,045	5.6%
Angel.com research and development activities	673	1,012	-33.5%
Total research and development expenses before capitalized software development costs	12,331	12,057	2.3%
Capitalized software development costs		(4,218)	-100.0%
Total research and development expenses	$ 12,331	$ 7,839	57.3%
Amortization of capitalized software development costs included in cost of product licenses revenues	$ 1,707	$ 422	304.5%

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Research and development expenses increased for the three months ended March 31, 2010, as compared to the same period in the prior year, primarily since no software development costs were capitalized during the period after the general release of our MicroStrategy 9 software in March 2009 as compared to $4.2 million in software development costs that were capitalized in the same period in the prior year. Excluding capitalized software development costs, core research and development expenses increased by 5.6% for the three months ended March 31, 2010, as compared to the same period in the prior year, primarily due to increased staffing levels. Research and development headcount increased 6.3% to 388 at March 31, 2010 from 365 at March 31, 2009.

As of March 31, 2010, our research and development resources were allocated to the following projects: 68.5% to MicroStrategy 9, 0.8% to MicroStrategy 8, 17.6% to new project initiatives, and 13.1% to other research and development, including our Angel.com business and internal information technology initiatives.

***Provision for Income Taxes*.** For the three months ended March 31, 2010 and 2009, we recorded a provision for income taxes from continuing operations of $3.6 million and $4.9 million, respectively, resulting in an effective tax rate for such periods of 34.5% and 36.1%, respectively. Our effective tax rate from continuing operations decreased for the three months ended March 31, 2010, as compared to the three months ended March 31, 2009, primarily due to an increased proportion of foreign income taxed at lower rates and benefit derived from the release of foreign valuation allowances.

As of March 31, 2010, we had fully utilized our U.S. federal net operating loss carryforwards and had foreign net operating loss carryforwards of $11.2 million and other temporary differences, carryforwards, and credits, which resulted in net deferred tax assets of $17.8 million. Also, as of March 31, 2010, we had a valuation allowance of $4.6 million (pre-tax) primarily related to certain foreign net operating loss carryforwards and other deferred tax assets that we have concluded are not more likely than not of being realized.

Except as discussed below, we intend to indefinitely reinvest the undistributed 2010 earnings of certain foreign subsidiaries. Therefore, the annualized effective tax rate applied to our pre-tax income for the period ended March 31, 2010 did not include any provision for U.S. federal and state taxes on the amount of the undistributed 2010 foreign earnings. U.S. federal tax laws, however, require us to include in our U.S. taxable income certain investment income earned outside of the U.S. in excess of certain limits (Subpart F deemed dividends). Because Subpart F deemed dividends are already required to be recognized in our U.S. federal income tax return, we regularly repatriate to the U.S. Subpart F deemed dividends and no additional tax is incurred on the distribution.

Discontinued Operations. On February 13, 2009, we completed the sale of our equity interest in Alarm.com for consideration of $24.5 million in cash net of post-closing purchase price adjustments and transaction costs totaling $3.3 million in the aggregate. The sale resulted in a gain of $14.4 million, net of tax. Accordingly, we report this business as discontinued on our consolidated statements of operations, because we do not have continuing involvement in, or cash flows from, this operation following its divestiture.

The following table summarizes the gain from the sale of discontinued operations, net of tax, and loss from discontinued operations, net of tax, (in thousands) for the three months ended March 31, 2009:

	Three Months Ended March 31, 2009
Gain on sale of discontinued operations, net of tax	$ 14,423
Loss from discontinued operations, net of tax	(107)

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Deferred Revenue and Advance Payments. Deferred revenue and advance payments represent product support and other services fees that are collected in advance and recognized over the contract service period and product licenses revenues relating to multiple element software arrangements that include future deliverables.

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

	March 31, 2010	December 31, 2009	March 31, 2009
Current:			
Deferred product licenses revenue	$ 12,269	$ 11,726	$ 5,014
Deferred product support revenue	118,714	120,389	105,003
Deferred other services revenue	13,786	14,363	11,916
	144,769	146,478	121,933
Less: unpaid deferred revenue	(48,089)	(68,695)	(43,243)
	$ 96,680	$ 77,783	$ 78,690
Non-current:			
Deferred product licenses revenue	$ 535	$ 542	$ 322
Deferred product support revenue	4,965	5,090	6,300
Deferred other services revenue	249	279	113
	5,749	5,911	6,735
Less: unpaid deferred revenue	(2,199)	(2,066)	(3,268)
	$ 3,550	$ 3,845	$ 3,467

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

The decrease in unpaid deferred revenue as of March 31, 2010, as compared to December 31, 2009, was primarily attributable to the seasonally large volume of product support invoices generated during the three months ended December 31, 2009 that subsequently were paid during the three months ended March 31, 2010. The increase in deferred revenue and advance payments as of March 31, 2010, as compared to March 31, 2009, was primarily attributable to the growth in the number of technical support contracts in our installed customer base and a high percentage of technical support renewals from our existing contracts.

Including unpaid deferred revenue, we expect to recognize approximately $144.8 million of deferred revenue and advance payments over the next 12 months. However, the timing and ultimate recognition of our deferred revenue and advance payments depend on our performance of various service obligations, and the amount of deferred revenue and advance payments at any date should not be considered indicative of revenues for any succeeding period.

As of March 31, 2010, we had agreements that included future minimum commitments by our customers to purchase products, product support or other services through 2014, totaling approximately $78.7 million. Revenue relating to such future commitments by our customers is not included in our deferred revenue balances.

Revenue relating to such agreements will be recognized during the period in which all revenue recognition criteria are met. The timing and ultimate recognition of any revenue from such customer purchase commitments depend on our customers meeting their future purchase commitments and our meeting our associated performance obligations related to those purchase commitments.

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Liquidity and Capital Resources

Our principal sources of liquidity are cash, cash equivalents and on-going collection of our accounts receivable. On March 31, 2010 and December 31, 2009, we had $231.9 million and $224.8 million, respectively, in cash and cash equivalents. Management believes that existing cash and cash anticipated to be generated by operations will be sufficient to meet working capital requirements and anticipated capital expenditures for at least the next 12 months. Based upon our cash position, we do not currently expect to borrow money to finance our operations.

On March 15, 2005, we entered into a security agreement with a bank under which we posted cash to secure existing letters of credit. These letters of credit are used as security deposits for office leases, including the office lease for our corporate headquarters, as well as collateral for performance bonds. We may invest the cash collateral under the security agreement in certain permitted investments. As of March 31, 2010, we had $0.7 million in cash collateral posted under the security agreement, all of which is invested in money market funds.

On July 28, 2005, we announced that our Board of Directors had authorized our repurchase of up to an aggregate of $300.0 million of our class A common stock from time to time on the open market (the 2005 Share Repurchase Program). On April 29, 2008, our Board of Directors amended the 2005 Share Repurchase Program to increase the amount of class A common stock that we are authorized to repurchase from $300.0 million to $800.0 million in the aggregate. The term of the 2005 Share Repurchase Program was also extended to April 29, 2013, although the program may be suspended or discontinued by us at any time. The timing and amount of any shares repurchased will be determined by our management based on its evaluation of market conditions and other factors. The 2005 Share Repurchase Program may be funded using our working capital, as well as proceeds from any credit facilities and other borrowing arrangements which we may enter into in the future. During the three months ended March 31, 2010, we repurchased an aggregate of 169,547 shares of our class A common stock at an average price per share of $85.83 and an aggregate cost of $14.6 million pursuant to the 2005 Share Repurchase Program. As of March 31, 2010, we had repurchased an aggregate of 2,639,020 shares of our class A common stock at an average price per share of $95.05 and an aggregate cost of $250.9 million pursuant to the 2005 Share Repurchase Program.

All of the amounts above relating to average price per share and aggregate cost include broker commissions.

We lease office space and computer and other equipment under operating lease agreements. In addition to base rent, we are responsible for certain taxes, utilities and maintenance costs, and other fees, and several leases include options for renewal or purchase. In January 2010, we entered into a lease for approximately 142,000 square feet of office space at a new location in Northern Virginia that will serve as our new corporate headquarters. The new lease provides for an abatement of base rent until March 2011. The initial term of the new lease expires in December 2020. The following table shows future minimum payments under noncancellable operating leases and agreements with initial terms of greater than one year, net of total future minimum rentals to be received under noncancellable sublease agreements (in thousands), based on the currently expected due dates of the various installments:

	Twelve Months Ended March 31,						
	2011	2012	2013	2014	2015	Thereafter	Total
Contractual Obligations:							
Operating leases	$ 12,012	$ 11,967	$ 11,473	$ 10,740	$ 9,829	$ 60,400	$ 116,421
Total	$ 12,012	$ 11,967	$ 11,473	$ 10,740	$ 9,829	$ 60,400	$ 116,421

As of March 31, 2010, we had $13.2 million of total gross unrecognized tax benefits. The timing of any payments which could result from these unrecognized tax benefits will depend on a number of factors, and accordingly the amount and period of any future payments cannot be estimated. We do not expect a significant tax payment related to these obligations within the next year.

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Net Cash Provided by Operating Activities. Net cash provided by operating activities was $24.9 million and $22.6 million for the three months ended March 31, 2010 and 2009, respectively. The major components of net cash provided by operating activities for the three months ended March 31, 2010 were $6.9 million of net income from continuing operations, a $20.3 million increase in deferred revenue and advance payments, a $15.3 million decrease in accrued compensation and employee benefits, an $11.2 million decrease in accounts receivable, a $4.4 million decrease in accounts payable and accrued expenses, $3.2 million of non-cash depreciation and amortization charges and a $1.2 million decrease in deferred taxes. The increase in net cash provided by operating activities for the three months ended March 31, 2010, as compared to the same period in the prior year, was primarily attributable to an increase of $3.3 million in deferred revenue and advance payments, an increase of $2.9 million in other long term liabilities, a decrease in accounts receivable of $1.9 million, a $0.5 million decrease in net cash used in operating activities from discontinued operations, partially offset by a decrease of $2.8 million in accounts payable and accrued expenses, an increase of $1.9 million in prepaid expenses and other current assets and a decrease of $1.8 million in net income from continuing operations.

Net Cash (Used in) Provided by Investing Activities. Net cash used in investing activities was $1.1 million for the three months ended March 31, 2010. Net cash provided by investing activities was $19.2 million for the three months ended March 31, 2009. The major components of net cash used in investing activities for the three months ended March 31, 2010 consisted of $1.4 million of purchases of property and equipment and a $0.3 million decrease in restricted cash and investments. The increase in net cash used in investing activities for the three months ended March 31, 2010, as compared to the same period in the prior year, was primarily attributable to the $24.5 million decrease in cash provided by discontinued operations, since the proceeds from the February 2009 sale of our equity interest in Alarm.com were included for the three months ended March 31, 2009, as well as a $4.2 million decrease in capitalized software development costs.

Net Cash Used in Financing Activities. Net cash used in financing activities was $14.5 million and $41,000 for the three months ended March 31, 2010 and 2009, respectively. The increase in net cash used in financing activities for the three months ended March 31, 2010, as compared to the same period in the prior year, was primarily attributable to an increase in the purchases of treasury stock of $14.6 million for the three months ended March 31, 2010.

Off-Balance Sheet Arrangements. On March 15, 2005, we entered into a security agreement with a bank under which we posted cash to secure existing letters of credit. These letters of credit are used as security deposits for office leases, including the office lease for our corporate headquarters, as well as collateral for performance bonds. We may invest the cash collateral under the security agreement in certain permitted investments. As of March 31, 2010, we had $0.7 million of cash collateral posted under the security agreement.

As of March 31, 2010, we did not have any off-balance sheet arrangements that had or were reasonably likely to have a current or future material impact on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about our market risk exposures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements.

We are exposed to the impact of both interest rate changes and foreign currency fluctuations.

Interest Rate Risk. We face exposure to changes in interest rates primarily relating to our investments. We generally invest our excess cash in short-term, highly-rated, fixed rate financial instruments. These fixed-rate investments are subject to interest rate risk and may fall in value if interest rates increase.

As of March 31, 2010, we did not have any material investments.

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Foreign Currency **Risk.** We conduct a significant portion of our business in currencies other than the U.S. dollar, the currency in which we report our consolidated financial statements. International sales accounted for 39.3% and 40.6% of our total revenues for the three months ended March 31, 2010 and 2009, respectively. We anticipate that international revenues will continue to account for a significant portion of our total revenues. The functional currency of each of our foreign subsidiaries is the local currency.

Assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at exchange rates in effect as of the applicable balance sheet date and any resulting translation adjustments are included as an adjustment to stockholders equity. Revenues and expenses generated from these subsidiaries are translated at average monthly exchange rates during the quarter in which the transactions occur. Gains and losses from transactions in local currencies are included in net income.

Historically, we have generated a significant portion of our revenues and incurred a significant portion of our expenses in euros and British pounds sterling. As a result of transacting in multiple currencies and reporting our financial statements in U.S. dollars, our operating results may be adversely impacted by currency exchange rate fluctuations in the future. Further information on the impact of foreign currency exchange rate fluctuations on current and comparable periods is described in Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations.

We cannot predict the effect of exchange rate fluctuations upon our future results. We attempt to minimize our foreign currency risk by converting our excess foreign currency held in foreign jurisdictions to U.S. dollar denominated cash and investment accounts. To date, we have not hedged the risks associated with foreign currency exchange exposure. Although we may do so in the future, we cannot be sure that any hedging techniques will be successful or that our business, results of operations, financial condition and cash flows will not be materially adversely affected by exchange rate fluctuations.

As of March 31, 2010, a 10% adverse change in foreign currency exchange rates versus the U.S. dollar would have decreased our aggregate reported cash and cash equivalents and restricted cash and investments by 0.5%. If average exchange rates had changed unfavorably by 10%, our total revenues for the three months ended March 31, 2010 would have decreased by 2.8%.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2010. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their control objectives. Based on the evaluation of our disclosure controls and procedures as of March 31, 2010, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in internal controls. No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various legal proceedings arising in the normal course of business. Although the outcomes of these legal proceedings are inherently difficult to predict, we do not expect the resolution of these legal proceedings to have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

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

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

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

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

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

- the size, timing, volume and execution of significant orders and shipments;
- the mix of products and services of customer orders, which can affect whether we recognize revenue upon the signing and delivery of our software products or whether revenue must be recognized as work progresses or over the entire contract period;
- the timing of the release or delivery of new or enhanced products, which may affect the period in which we are able to recognize revenue;
- the timing of new product announcements by us or our competitors;
- 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;

seasonal factors, such as our traditionally lower pace of new product licenses transactions in the summer;

changes in our operating expenses;

personnel changes;

our use of direct and indirect distribution channels;

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utilization of our consulting and education services, which can be affected by delays or deferrals of customer implementation of our software products;

the quarterly performance of our Angel.com business, which is highly variable and particularly difficult to forecast;

changes in foreign currency exchange rates;

our profitability and expectations for future profitability and its effect on our deferred tax assets and net income for the period in which any adjustment to our net deferred tax asset valuation allowance may be made;

increases or decreases in our liability for unrecognized tax benefits under ASC Topic No. 740, Income Taxes (ASC 740); and

changes in customer budgets.

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

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

The trading price for our class A common stock has been and may continue to be volatile

The trading price of our class A common stock historically has been volatile and may continue to be volatile. The trading price of our class A common stock may fluctuate widely in response to various factors, some of which are beyond our control. These factors include, but are not limited to:

quarterly variations in our results of operations or those of our competitors;

announcements by us or our competitors of acquisitions, new products, significant contracts, commercial relationships or capital commitments;

the emergence of new sales channels in which we are unable to compete effectively;

our ability to develop, market and deliver new and enhanced products on a timely basis;

commencement of, or our involvement in, litigation;

any major change in our board or management;

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changes in governmental regulations or in the status of our regulatory approvals;

recommendations by securities analysts or changes in earnings estimates;

announcements about our earnings that are not in line with analyst expectations, the likelihood of which may be enhanced because it is our policy not to give guidance relating to our anticipated financial performance in future periods;

announcements by our competitors of their earnings that are not in line with analyst expectations;

the volume of shares of class A common stock available for public sale;

sales of stock by us or by our stockholders;

short sales, hedging and other derivative transactions involving shares of our class A common stock; and

general economic conditions and slow or negative growth of related markets.

In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our class A common stock, regardless of our actual operating performance.

Current economic uncertainties, particularly in the financial services and retail industries, could adversely affect our business and results of operations

General worldwide economic conditions have experienced a significant prolonged downturn and remain uncertain. Challenging economic times make it extremely difficult for our customers and us to accurately forecast and plan future business activities, and they could cause our customers to slow spending on our products and services, which would delay and lengthen sales cycles. Furthermore, during challenging economic times our customers may face issues gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for doubtful accounts and our results would be negatively impacted.

Furthermore, we have a significant number of customers in the financial services and retail industries. A significant downturn in these industries may cause firms to react by reducing their capital expenditures in general or by specifically reducing their spending on information technology. In addition, customers in these industries may delay or cancel information technology projects or seek to lower their costs by renegotiating vendor contracts. Customers with excess information technology resources may choose to develop in-house software solutions rather than obtain those solutions from us. Moreover, competitors may respond to challenging market conditions by lowering prices and attempting to lure away our customers. In addition, consolidation in the financial services industry may result in reduced overall spending on our products.

We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery, generally or in the financial services and retail industries. If a downturn in the general economy or markets in which we operate worsens from present levels, our business, financial condition and results of operations could be materially and adversely affected.

Revenue recognition accounting pronouncements may adversely affect our reported results of operations

We continuously review our compliance with all new and existing revenue recognition accounting pronouncements. Depending upon the outcome of these ongoing reviews and the potential issuance of further accounting pronouncements, implementation guidelines and interpretations, we may be required to modify our reported results, revenue recognition policies or business practices, which could have a material adverse effect on our results of operations.

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We may have exposure to greater than anticipated tax liabilities

We are subject to income taxes and non-income taxes in a variety of domestic and foreign jurisdictions. Our future income taxes could be adversely affected by earnings that are lower than anticipated in jurisdictions where we have lower statutory rates and earnings that are higher than anticipated in jurisdictions where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, changes in the amount of unrecognized tax benefits under ASC 740, or by changes in tax laws, regulations, accounting principles or interpretations thereof.

Our determination of our tax liability is subject to review by applicable domestic and foreign tax authorities. For example, we are currently under tax examination in Germany and the United Kingdom. Any adverse outcome of such a review could have an adverse effect on our operating results and financial condition. The determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment and, in the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Moreover, as a multinational business, we have subsidiaries that engage in many intercompany transactions in a variety of tax jurisdictions where the ultimate tax determination is uncertain.

We also have contingent tax liabilities that, in management s judgment, are not probable of assertion. If such unasserted contingent liabilities were to be asserted, or become probable of assertion, we may be required to record significant expenses and liabilities in the period in which these liabilities are asserted or become probable of assertion.

As a result of these and other factors, the ultimate amount of tax obligations owed may differ from the amounts recorded in our financial statements and any such difference may materially affect our financial results in future periods in which we change our estimates of our tax obligations or in which the ultimate tax outcome is determined.

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 could 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 evolving. Resistance from consumer and privacy groups to increased commercial collection and use of data on spending patterns and other personal behavior and governmental restrictions on the collection and use of personal data may impair the further growth of this market, as may other developments. We cannot be sure that this market will continue to grow or, even if it does grow, that businesses will adopt our solutions. We have spent, and intend to keep spending, considerable resources to educate potential customers about business intelligence software in general and our solutions in particular. However, we cannot be sure that these expenditures will help our products achieve any additional market acceptance. If the market fails to grow or grows more slowly than we currently expect, our business, operating results and financial condition would be materially adversely affected.

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

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

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MicroStrategy faces competitors in several broad categories, including business intelligence software, analytical processes, query and web-based reporting tools, and report delivery. Independent competitors that are primarily focused on business intelligence products include, among others, Actuate, Information Builders and the SAS Institute. We also compete with large software corporations, including suppliers of enterprise resource planning software that provide one or more capabilities competitive with our products, such as IBM, Microsoft, Oracle, SAP AG and Infor, and with open source business intelligence vendors, including Pentaho and JasperSoft.

Many of our competitors have longer operating histories, significantly greater financial, technical, marketing or other resources, and greater name recognition than we do. In addition, many of our competitors have strong relationships with current and potential customers and extensive knowledge of the business intelligence industry. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of their products than we can. Increased competition may lead to price cuts, reduced gross margins and loss of market share. We may not be able to compete successfully against current and future competitors and the failure to meet the competitive pressures we face may have a material adverse effect on our business, operating results and financial condition.

Current and future competitors may also make strategic acquisitions or establish cooperative relationships among themselves or with others. For example, IBM acquired SPSS in October 2009. By doing so, these competitors may increase their ability to meet the needs of our potential customers. Our current or prospective indirect channel partners may establish cooperative relationships with our current or future competitors. These relationships may limit our ability to sell our products through specific distribution channels. Accordingly, new competitors or alliances among current and future competitors may emerge and rapidly gain significant market share. These developments could limit our ability to obtain revenues from new customers and to maintain technical support revenues from our installed customer base. In addition, basic office productivity suites, such as Microsoft Office, could evolve to offer analysis and reporting capabilities that may reduce the demand for our products and services.

We depend on revenue from a single suite of products

Our MicroStrategy business intelligence platform and related products account for a substantial portion of our revenue. Because of this revenue concentration, our business could be harmed by a decline in demand for, or in the prices of, our MicroStrategy business intelligence platform software as a result of, among other factors, any change in our pricing model, increased competition, a maturation in the markets for these products or other risks described in this document.

If we are unable to develop and release product enhancements and new products to respond to rapid technological change in a timely and cost-effective manner, our business, operating results and financial condition could be materially adversely affected

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

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

Business intelligence applications are inherently complex, and it can take a long time and require significant research and development expenditures to develop and test new products and product

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enhancements. In addition, customers may delay their purchasing decisions because they anticipate that new or enhanced versions of our products will soon become available. We cannot be sure that we will succeed in developing and marketing, on a timely and cost-effective basis, product enhancements or new products that respond to technological change or new customer requirements, nor can we be sure that any new products and product enhancements will achieve market acceptance. Moreover, even if we introduce a new product, we may experience a decline in revenues of our existing products that is not fully matched by the new product s revenue. For example, customers may delay making purchases of a new product to permit them to make a more thorough evaluation of the product, or until industry and marketplace reviews become widely available. Some customers may hesitate migrating to a new product due to concerns regarding the complexity of migration and product infancy issues on performance. In addition, we may lose existing customers who choose a competitor s product rather than migrate to our new product. This could result in a temporary or permanent revenue shortfall and materially affect our business.

Business disruptions could affect our operating results

A significant portion of our research and development activities and certain other critical business operations are concentrated in a single facility in Northern Virginia. We are also a highly automated business and a disruption or failure of our systems could cause delays in completing sales and providing services. A major earthquake, fire, act of terrorism or other catastrophic event that results in the destruction or disruption of any of our critical business operations or information technology systems could severely affect our ability to conduct normal business operations and as a result our future operating results could be materially and adversely affected.

If we are required to write down the value of our corporate aircraft or to reduce its estimated salvage value as a result of damage to the aircraft sustained in connection with the recent collapse of the hangar in which it was located, such loss could materially and adversely affect our results of operations

On December 21, 2009, we took delivery of a corporate aircraft. Our balance sheet as of March 31, 2010 includes as part of property and equipment, net, an asset of $47.2 million representing the capitalized costs of the aircraft and aircraft-related equipment. We had expected to amortize the cost of the aircraft over a useful life of 10 years with an estimated salvage value of 70%.

In February 2010, the corporate aircraft was damaged when the hangar space that we lease at Dulles International Airport to house the aircraft collapsed during snowfall in the Washington, DC metropolitan area. We carry property insurance on the aircraft. Our ability to assess the damage to the aircraft has been impeded due to the state of the collapsed hangar in which the aircraft remains detained. As a result, we are not able at this time to reasonably estimate the potential loss or any potential insurance recovery related to this event. If in the future we are able to reasonably estimate the amount of any decrease in the value of this asset as a result of this event, we may be required to record an impairment charge. If that impairment charge is not offset by insurance proceeds of an equivalent amount or if such offset does not occur in the same period as the impairment charge, our reported results of operations and stockholders equity in the period in which the impairment charge occurs may be adversely affected. In addition, if in the future we determine that the estimated salvage value of the aircraft has been reduced as a result of this event, the aggregate amount of depreciation expense that we would incur over the useful life of the aircraft could increase, which in turn may reduce our net income in future periods.

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

In addition to our direct sales force, we use strategic channel partners such as value-added resellers, system integrators and original equipment manufacturers to license and support our products. For the three months ended March 31, 2010, transactions by channel partners for which we recognized revenues accounted for 19.6% of our total product licenses revenues. Our channel partners generally offer customers the products of several different companies, including products that compete with ours. Because our channel partners

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generally do not have an exclusive relationship with us, we cannot be certain that they will prioritize or provide adequate resources to selling our products. Moreover, divergence in strategy or contract defaults by any of these channel partners may materially adversely affect our ability to develop, market, sell or support our products.

Although we believe that direct sales will continue to account for a majority of product licenses revenues, we seek to maintain a significant level of indirect sales activities through our strategic channel partners. There can be no assurance that our strategic channel partners will continue to cooperate with us. In addition, there can be no assurance that actions taken or omitted to be taken by such parties will not adversely affect us. Our ability to achieve revenue growth in the future will depend in part on our success in maintaining successful relationships with our strategic partners. If we are unable to maintain our relationships with these strategic partners, our business, operating results and financial condition could be materially adversely affected.

In addition, we rely on our strategic channel partners to operate in accordance with the terms of their contractual agreements with us. For example, our agreements with our channel partners limit the terms and conditions pursuant to which they are authorized to resell or distribute our software and offer technical support and related services. We also typically require our channel partners to represent to us the dates and details of product licenses transactions sold through to end user customers. If our strategic channel partners do not comply with their contractual obligations to us, our business, results of operations and financial condition may be materially and adversely affected.

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

Our gross current and long-term deferred revenue and advance payments totaled $150.5 million as of March 31, 2010. We offset our accounts receivable and deferred revenue for any unpaid items, which totaled $50.3 million, resulting in net deferred revenue and advance payments of $100.2 million as of March 31, 2010. The timing and ultimate recognition of our deferred revenue and advance payments depend on various factors, including our performance of various service obligations.

We have also entered into certain additional agreements that include future minimum commitments by our customers to purchase products, product support or other services through 2014 totaling $78.7 million. These future commitments are not included in our deferred revenue balances. Because of the possibility of customer changes or delays in customer development or implementation schedules or budgets, and the need for us to satisfactorily perform product support services, deferred revenue and advance payments at any particular date may not be representative of actual revenue for any succeeding period.

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

We generated net income for each of the three months ended March 31, 2010 and 2009; however, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future. If operating expenses exceed our expectations or cannot be adjusted accordingly or revenues fall below our expectations, we may cease to be profitable and our business, results of operations and financial condition may be materially and adversely affected. As part of our initiatives to focus specific research and development efforts on providing our customers with the highest levels of performance for BI applications of all sizes and to develop and offer mobile application platforms, we anticipate significantly increasing our headcount during 2010. As a result, we expect our cost of revenues and operating expenses will continue to increase during 2010. Our revenues may not increase as quickly as our cost of revenues and operating expenses in 2010 and, therefore, our operating margins and net income may significantly decrease for the remainder of 2010 compared to the same periods in 2009.

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As of March 31, 2010, we had $18.0 million of deferred tax assets, net of valuation allowance, and if we are unable to sustain profitability, we may be required to increase the valuation allowance against these deferred tax assets, which would result in a charge that would adversely affect net income in the period in which the charge is incurred.

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

We receive a significant portion of our total revenues from international sales from foreign direct and indirect operations. International revenues accounted for 39.3% and 40.6% of our total revenues for the three months ended March 31, 2010 and 2009, 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, export restrictions and other trade barriers;

costs of localizing products;

lack of acceptance of localized products;

difficulties in and costs of staffing, managing and operating our international operations;

tax issues, including restrictions on repatriating earnings;

weaker intellectual property protection;

economic weakness or currency related crises;

the burden of complying with a wide variety of laws, including labor laws;

generally longer payment cycles and greater difficulty in collecting accounts receivable;

our ability to adapt to sales practices and customer requirements in different cultures; and

political instability in the countries where we are doing business.

On February 1, 2010, President Obama s administration submitted its fiscal year 2011 budget to Congress. Included in the submission were several proposals to reform U.S. tax laws, including a proposal to further limit foreign tax credits and tax excess returns associated with offshore intangibles. It is unclear whether these proposed tax reforms will be enacted or, if enacted, what the scope of the reforms will be. Depending on their content, such reforms, if enacted, could have a material adverse effect on our operating results and financial condition.

In addition, compliance with foreign and U.S. laws and regulations that are applicable to our international operations is complex and may increase our cost of doing business in international jurisdictions, and our

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international operations could expose us to fines and penalties if we fail to comply with these regulations. These laws and regulations include import and export requirements, U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to governmental officials. Although we have implemented policies and procedures designed to help ensure compliance with these laws, there can be no assurance that our employees, partners and other persons with whom we do business will not take actions in violation of our policies or these laws. Any violations of these laws could subject us to civil or criminal penalties, including substantial fines or prohibitions on our ability to offer our products and services to one or more countries, and could also materially damage our reputation, our brand and our international expansion efforts.

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

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

To date, our customers have typically invested substantial time, money and other resources and involved many people in the decision to license our software products and purchase our consulting and other services. As a result, we may wait nine months or more after the first contact with a customer for that customer to place an order while it seeks internal approval for the purchase of our products or services. During this long sales cycle, events may occur that affect the size and/or timing of the order or even cause it to be canceled. For example, our competitors may introduce new products, or the customer s own budget and purchasing priorities may change.

Even after an order is placed, the time it takes to deploy our products and complete consulting engagements can vary widely. Implementing our product can take 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 results in any particular period may depend upon the number and volume of large transactions in that period and these transactions may involve more lengthy, complex and unpredictable sales cycles than other transactions

As existing and potential customers seek to standardize on a single business intelligence vendor, our business may experience larger transactions at the enterprise level and larger transactions may account for a greater proportion of our business. The presence or absence of one or more large transactions in a particular period may have a material positive or negative effect on our revenue and operating results for that period. For the three months ended March 31, 2010, our top three product licenses transactions with recognized revenue totaled $2.0 million, or 11.3% of total product licenses revenues, compared to $3.5 million of recognized revenue, or 20.5% of total product licenses revenues, for the three months ended March 31, 2009. These transactions represent significant business and financial decisions for our customers and require considerable effort on the part of customers to assess alternative products and require additional levels of management approval before being concluded. They are also often more complex than smaller transactions. These factors generally lengthen the typical sales cycle and increase the risk that the customer s purchasing decision may be postponed or delayed from one period to another subsequent or later period or that the customer will alter his purchasing requirements. The sales effort and service delivery scope for larger transactions also require additional resources to execute the transaction. These factors could result in lower than anticipated revenue and earnings for a particular period or in the reduction of estimated revenue and earnings in future periods.

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

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

Procurement. Contracting with public sector customers is highly competitive and can be time-consuming and expensive, requiring that we incur significant up-front time and expense without any assurance that we will win a contract.

Budgetary Constraints and Cycles. Demand and payment for our products and services are impacted by public sector budgetary cycles and funding availability, with funding reductions or delays adversely impacting public sector demand for our products and services.

Termination of Contracts. Public sector customers often have contractual or other legal rights to terminate current contracts for convenience or due to a default. If a contract is terminated for convenience, which can occur if the customer s needs change, we may only be able to collect for products or services delivered prior to termination and settlement expenses. If a contract is terminated because of default, we may not recover even those amounts, and we may be liable for excess costs incurred by the customer for procuring alternative products or services.

Audits. The U.S. government and state and local governments and agencies routinely investigate and audit government contractors for compliance with a variety of complex laws, regulations, and contract provisions relating to the formation, administration or performance of government contracts, including provisions governing reports of and remittances of fees based on sales under government contracts, price protection, compliance with socio-economic policies, and other terms that are particular to government contracts. If, as a result of an audit or review, it is determined that we have failed to comply with such laws, regulations or contract provisions, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, cost associated with the triggering of price reduction clauses, fines and suspensions or debarment from future government business, and we may suffer harm to our reputation.

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

We depend on technology licensed to us by third parties, and the loss of this technology could impair our software, delay implementation of our products or force us to pay higher license fees

We license third-party technologies that we incorporate into our existing products. There can be no assurance that the licenses for such third-party technologies will not be terminated or that we will be able to license third-party software for future products. In addition, we may be unable to renegotiate acceptable third-party license terms. Changes in or the loss of third party licenses could lead to a material increase in the costs of licensing or to our software products becoming inoperable or their performance being materially reduced, with the result that we may need to incur additional development costs to ensure continued performance of our products, and we may experience a decreased demand for our products.

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 could be materially adversely affected

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

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Michael J. Saylor, our Chairman, President and Chief Executive Officer, and Sanju K. Bansal, our Vice Chairman, Executive Vice President and Chief Operating Officer. If we lose the services of one or both of these individuals or other key personnel, or if we are unable to attract, train, assimilate and retain the highly skilled personnel we need, our business, operating results and financial condition could be materially adversely affected.

The emergence of new industry standards may adversely affect the demand for our existing products

The emergence of new industry standards in related fields may adversely affect the demand for our existing products. This could happen, for example, if new web standards and technologies emerged that were incompatible with customer deployments of our products. MicroStrategy currently supports SQL and MDX standards in database access technology. If we are unable to adapt our products on a timely basis to new standards in database access technology, the ability of MicroStrategy s products to access customer databases could be impaired. In addition, the emergence of new standards in the field of operating system support could adversely affect the demand for our existing products. MicroStrategy technology is currently compatible with most major operating systems, including, among others, Windows Server, Sun Solaris, IBM AIX, HP s HP-UX, Red Hat Linux AS and SuSE Linux Enterprise Server. If a different operating system were to gain widespread acceptance, we may not be able to achieve compatibility on a timely basis, resulting in an adverse effect on the demand for our products.

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

Software products as complex as ours may contain errors and/or defects. Although we test our products extensively, we have in the past discovered software errors in our 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, damage to our reputation or delays in market acceptance, which could have a material adverse effect upon our business, operating results and financial condition. We may also have to expend resources and capital to correct these defects.

Our license agreements with customers typically contain provisions designed to limit our exposure to product liability, warranty and other claims. It is possible, however, that these provisions may not be effective under the laws of certain domestic or international jurisdictions and we may be exposed to product liability, warranty and other claims. A successful product liability claim against us could have a material adverse effect on our business, operating results and financial condition.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand

We rely on a combination of copyright, patent, trade secrets, confidentiality procedures and contractual commitments to protect our proprietary information. Despite our efforts, these measures can only provide limited protection. Unauthorized third parties may try to copy or reverse engineer portions of our products or otherwise obtain and use our intellectual property. Any patents owned by us may be invalidated, circumvented or challenged. Any of our pending or future patent applications, whether or not being currently challenged, may not be issued with the scope of the claims we seek, if at all. In addition, the laws of some countries do not provide the same level of protection of our proprietary rights as do the laws of the United States. If we cannot protect our proprietary technology against unauthorized copying or use, we may not remain competitive.

Third parties may claim we infringe their intellectual property rights

We periodically receive notices from others claiming we are infringing their intellectual property rights, principally patent rights. We expect the number of such claims will increase as the number of products and level of competition in our industry segments grow, the functionality of products overlap, and the volume

of issued software patents and patent applications continues to increase. Responding to any infringement claim, regardless of its validity, could:

- be time-consuming, costly and/or result in litigation;

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divert management s time and attention from developing our business;

require us to pay monetary damages or enter into royalty and licensing agreements that we would not normally find acceptable;

require us to stop selling certain of our products;

require us to redesign certain of our products using alternative non-infringing technology or practices, which could require significant effort and expense; or

require us to satisfy indemnification obligations to our customers.

If a successful claim is made against us and we fail to develop or license a substitute technology, our business, results of operations, financial condition or cash flows could be adversely affected.

Pending or future litigation could have a material adverse impact on our results of operation and financial condition

In addition to intellectual property litigation, from time to time, we have been subject to other litigation. Where we can make a reasonable estimate of the liability relating to pending litigation and determine that it is probable, we record a related liability. As additional information becomes available, we assess the potential liability and revise estimates as appropriate. However, because of uncertainties relating to litigation, the amount of our estimates could be wrong. In addition to the related cost and use of cash, pending or future litigation could cause the diversion of management s attention and resources.

Because of the rights of our two classes of common stock, and because we are controlled by our existing holders of class B common stock, these stockholders could transfer control of MicroStrategy to a third party without the approval of our Board of Directors or our other stockholders, prevent a third party from acquiring MicroStrategy, or limit your ability to influence corporate matters

We have two classes of common stock: class A common stock and class B common stock. Holders of our class A common stock generally have the same rights as holders of our class B common stock, except that holders of class A common stock have one vote per share while holders of class B common stock have ten votes per share. As of April 26, 2010, holders of our class B common stock owned 2,694,362 shares of class B common stock, or 74.8% of the total voting power. Michael J. Saylor, our Chairman, President and Chief Executive Officer, beneficially owned 393,146 shares of class A common stock and 2,358,700 shares of class B common stock, or 65.8% of the total voting power, as of April 26, 2010. Accordingly, Mr. Saylor is able to control MicroStrategy through his ability to determine the outcome of elections of our directors, amend our certificate of incorporation and by-laws and take other actions requiring the vote or consent of stockholders, including mergers, going-private transactions and other extraordinary transactions and their terms.

Our certificate of incorporation allows holders of class B common stock, all of whom are current employees or directors of our company or related parties, to transfer shares of class B common stock, subject to the approval of stockholders possessing a majority of the outstanding class B common stock. Mr. Saylor or a group of stockholders possessing a majority of the outstanding class B common stock could, without the approval of our Board of Directors or our other stockholders, transfer voting control of MicroStrategy to a third party. Such a transfer of control could have a material adverse effect on our business, operating results and financial condition. Mr. Saylor or a group of stockholders possessing a majority of the outstanding class B common stock will also be able to prevent a change of control of

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MicroStrategy, regardless of whether holders of class A common stock might otherwise receive a premium for their shares over the then current market price. In addition, this concentrated control limits stockholders ability to influence corporate matters and, as a result, we may take actions that our non-controlling stockholders do not view as beneficial. As a result, the market price of our class A common stock could be adversely affected.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about our repurchases of equity securities during the periods indicated that are registered by us pursuant to Section 12 of the Exchange Act:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit) (1)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (2)
January 1, 2010 January 31, 2010		N/A		$ 563,701,471
February 1, 2010 February 28, 2010	45,000	$ 81.53	45,000	$ 560,032,693
March 1, 2010 March 31, 2010	124,547	$ 87.39	124,547	$ 549,148,509
Total:	169,547	$ 85.83	169,547	$ 549,148,509

(1) The Average Price Paid per Share includes broker commissions.

(2) On July 28, 2005, we announced that our Board of Directors had authorized our repurchase of up to an aggregate of $300.0 million of our class A common stock from time to time on the open market, pursuant to the 2005 Share Repurchase Program. The timing and amount of any shares repurchased is determined by our management based on its evaluation of market conditions and other factors. The 2005 Share Repurchase Program may be funded using our working capital, as well as proceeds from any credit facilities and other borrowing arrangements which we may enter into in the future. On April 29, 2008, our Board of Directors amended the 2005 Share Repurchase Program to increase the amount of class A common stock that we are authorized to repurchase from $300.0 million to $800.0 million in the aggregate. The term of the 2005 Share Repurchase Program was also extended to April 29, 2013, although the program may be suspended or discontinued by us at any time. As of March 31, 2010, we had repurchased an aggregate of 2,639,020 shares of our class A common stock at an average price per share of $95.05 and an aggregate cost of $250.9 million under the 2005 Share Repurchase Program. As of March 31, 2010, $549.1 million of our class A common stock remained available for repurchase under the 2005 Share Repurchase Program.

Item 6. Exhibits

We hereby file as part of this Quarterly Report on Form 10-Q the exhibits listed in the Index to Exhibits.

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

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SIGNATURES

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

MICROSTRATEGY INCORPORATED

By: /s/ Michael J. Saylor
Michael J. Saylor
Chairman of the Board of Directors,
President and Chief Executive Officer

By: /s/ Douglas K. Thede
Douglas K. Thede
Executive Vice President, Finance & Chief
Financial Officer

Date: May 4, 2010

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INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Second Restated Certificate of Incorporation of the registrant (filed as Exhibit 3.1 to the registrant s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (File No. 000-24435) and incorporated by reference herein).
3.2	Amended and Restated By-Laws of the registrant (filed as Exhibit 3.2 to the registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (File No. 000-24435) and incorporated by reference herein).
4.1	Form of Certificate of Class A Common Stock of the registrant (filed as Exhibit 4.1 to the registrant s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 (File No. 000-24435) and incorporated by reference herein).
10.1	Executive Vice President, Worldwide Sales & Operations 2010 Bonus Plan (filed as Exhibit 99.1 to the registrant s Current Report on Form 8-K (File No. 000-24435) filed on March 29, 2010 and incorporated by reference herein).
10.2	Performance Incentive Plan (filed as Exhibit 99.1 to the registrant s Current Report on Form 8-K (File No. 000-24435) filed on April 5, 2010 and incorporated by reference herein).
10.3	Summary of Compensation for Named Executive Officers (filed as Exhibit 99.2 to the registrant s Current Report on Form 8-K (File No. 000-24435) filed on April 5, 2010 and incorporated by reference herein).
10.4	Fourth Amendment of Deed of Lease and First Extension of Term, dated April 26, 2010, between Tysons Corner Property LLC and the registrant.
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Chairman of the Board of Directors, President and Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Chief Financial Officer.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.