

MICROSTRATEGY INC  
Form 10-K/A  
May 26, 2004

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K/A**

(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-24435

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**MICROSTRATEGY INCORPORATED**

(Exact name of registrant as specified in its charter)

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Delaware  
(State of incorporation)

1861 International Drive, McLean, VA 22102  
(Address of Principal Executive Offices) (Zip Code)

51-0323571  
(I.R.S. Employer

Identification Number)

Registrant's telephone number, including area code:

(703) 848-8600

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

Not applicable

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

Class A common stock, par value \$0.001 per share

Warrants to Purchase Class A Common Stock, par value \$0.001 per share

(Title of class)

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant (based on the last reported sale price of the Registrant's class A common stock on June 30, 2003 on the Nasdaq National Market) was approximately \$381.9 million.

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The number of shares of the registrant's class A common stock and class B common stock outstanding on March 1, 2004 was 12,431,663 and 3,603,730, respectively.

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**CERTAIN DEFINITIONS**

All references in this Amendment No. 1 to Annual Report on Form 10-K to MicroStrategy, Company, we, us and our refer to MicroStrategy Incorporated and its consolidated subsidiaries (unless the context otherwise requires).

**PART III****ITEM 11. EXECUTIVE COMPENSATION**

The compensation information set forth in this Item 11 relates to compensation paid by MicroStrategy to its chief executive officer and our five other most highly compensated executive officers who were serving as our executive officers during Fiscal Year 2003 (collectively, the Named Executive Officers).

The following table sets forth certain information concerning the compensation of the Named Executive Officers for each of the last three fiscal years:

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Awards
		Salary	Bonus	Other Annual Compensation	Number of Shares Underlying Options
Michael J. Saylor Chairman of the Board and Chief Executive Officer	2003	\$ 375,000	\$ 532,889		410,000
	2002	150,000			
	2001	150,000			
Sanju K. Bansal Vice Chairman of the Board, Executive Vice President, and Chief Operating Officer	2003	200,000	\$ 284,207		100,000
	2002	115,000			
	2001	115,000			
Eric F. Brown President and Chief Financial Officer	2003	250,000	213,155		50,000
	2002	225,000	100,000		75,000
	2001	200,000	125,000		25,000
Jonathan F. Klein	2003	186,250	100,000		50,000

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Vice President, Law and General Counsel	2002	175,000	60,000	70,000
	2001	159,000	50,000	13,500
Jeffrey A. Bedell(1)				
Vice President, Technology and	2003	186,250	55,468	50,000
	2002	161,875	56,103	51,610
Chief Technology Officer	2001	128,333	52,595	25,000
Eduardo S. Sanchez(2)	2003	250,000	225,566	50,000
	2002	250,000	116,301	35,000
Vice President, Worldwide Sales and Services	2001	250,000	77,983	25,000

- (1) Mr. Bedell joined MicroStrategy in December 1992 and became vice president, technology and chief technology officer in April 2001.
- (2) Mr. Sanchez joined MicroStrategy in November 1992 and became vice president, worldwide sales and services in April 2001.

**Option Grants Table**

The following table contains information concerning grants of stock options made to each of the Named Executive Officers during Fiscal Year 2003:

**OPTION GRANTS IN LAST FISCAL YEAR****Individual Grants**

<u>Name</u>	<u>Number of Shares of Class A Common Stock Underlying Options Granted(1)</u>	<u>% of Total Options Granted to Employees in 2003</u>	<u>Exercise Price Per Share(2)</u>	<u>Expiration Date</u>	<u>Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)</u>	
					<u>5%</u>	<u>10%</u>
Michael J. Saylor	410,000	39.5%	\$ 20.69	2/8/13	\$ 5,334,850	\$ 13,519,558
Sanju K. Bansal	100,000	9.6%	\$ 20.69	2/8/13	\$ 1,301,183	\$ 3,297,453
Eric F. Brown	50,000	4.8%	\$ 20.69	2/8/13	\$ 650,591	\$ 1,648,727
Jonathan F. Klein	50,000	4.8%	\$ 20.69	2/8/13	\$ 650,591	\$ 1,648,727
Jeffrey A. Bedell	50,000	4.8%	\$ 20.69	2/8/13	\$ 650,591	\$ 1,648,727
Eduardo S. Sanchez	50,000	4.8%	\$ 20.69	2/8/13	\$ 650,591	\$ 1,648,727

- (1) These options vest over a five-year period and expire on the tenth anniversary of the date of grant.
- (2) The exercise price of options of MicroStrategy may be paid in cash or in shares of our class A common stock, valued at fair market value on the exercise date. All stock options were granted with an exercise price equal to the fair market value of such stock as determined by our board of directors on the grant date.
- (3) The potential realizable value is calculated based on the term of the option at its time of grant (ten years). It is calculated assuming that the fair market value of our class A common stock on the date of grant appreciates at the indicated annual rate compounded annually for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock price.

**Option Exercises and Holdings**

The following table sets forth information concerning each exercise of a stock option during Fiscal Year 2003 by each of the Named Executive Officers and the number and value of unexercised options held by each of the Named Executive Officers on December 31, 2003.

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR  
AND FISCAL YEAR-END OPTION VALUES**

<u>Name</u>	<u>Number of Shares of Class A Common Stock Acquired on Exercise</u>	<u>Value Realized(1)</u>	<u>Number of Shares of Class A Common Stock Underlying Unexercised Options at Fiscal Year-End Exercisable/Unexercisable</u>	<u>Value of Unexercised In-the-Money Options at Fiscal Year-End(2) Exercisable/Unexercisable</u>
Michael J. Saylor		\$	/ 410,000	\$ /\$13,033,900
Sanju K. Bansal			/ 100,000	/ 3,179,000
Eric F. Brown	31,250	809,125	30,000 / 138,751	/ 4,623,125
Jonathan F. Klein	29,986	729,455	7,712 / 112,351	8,329 / 4,284,790
Jeffrey A. Bedell			41,839 / 106,482	1,234,099 / 3,755,728
Eduardo S. Sanchez			54,250 / 91,750	1,455,755 / 3,189,725

- (1) Represents the difference between the exercise price and the fair market value of our class A common stock on the date of exercise.
- (2) Value of an unexercised in-the-money option is determined by subtracting the exercise price per share from the fair market value per share for the underlying shares as of December 31, 2003, multiplied by the number of such underlying shares. The fair market value of our class A common stock is based upon the last reported sale price as reported on the Nasdaq National Market on December 31, 2003 (\$52.48 per share).

**Directors Compensation***Equity Compensation*

On February 8, 2003, the compensation committee of the board of directors granted the following stock options under our Second Amended and Restated 1999 Stock Option Plan ( 1999 Plan ) to directors who were serving on the board on such date and who were not employees of MicroStrategy or any subsidiary: (1) an option to purchase 17,000 shares of class A common stock to David B. Blundin, (2) an option to purchase 25,000 shares of class A common stock to F. David Fowler, chairman of the Audit Committee, (3) an option to purchase 17,000 shares of class A common stock to Jonathan J. Ledecy, a director of the Company who retired from the board effective July 10, 2003, (4) an option to purchase 25,000 shares of class A common stock to Carl J. Rickertsen, chairman of the Compensation Committee, (5) an option to purchase 17,000 shares of class A common stock to Stuart B. Ross and (6) an option to purchase 17,000 shares of class A common stock to Ralph S. Terkowitz. Each of these options has an exercise price equal to the fair market value of the class A common stock on the last trading day immediately preceding the date of grant, or \$20.69 per share, and becomes exercisable in equal annual installments over a five-year period. On June 8, 2003, the Board granted Mr. Ledecy an option to purchase 17,000 shares of class A common stock under the 1999 Plan. This option (i) has an exercise price equal to the fair market value of the class A common stock on the last trading day immediately preceding the date of grant, or \$39.85 per share; (ii) was vested in full on the date of grant; and (iii) has a term of five years.

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Directors who are not employees of MicroStrategy or any subsidiary (an Outside Director ) are granted stock options under our 1999 Plan pursuant to the following standard arrangement: (1) each Outside Director is granted an option to purchase 17,000 shares of class A common stock upon such Outside Director 's initial election or appointment to the board of directors ( First Option ), and (2) each Outside Director is granted an



option to purchase an additional 8,000 shares of class A common stock upon the initial election or appointment of such Outside Director as the chairperson of the Compensation Committee or Audit Committee of the board of directors (the Chairperson Option ), provided that the aggregate number of shares of class A common stock subject to the First Option and any Chairperson Option granted to any individual Outside Director may not exceed 25,000 shares. First Options and Chairperson Options become exercisable in equal annual installments over a five-year period.

Each option granted to an Outside Director under the 1999 Plan has an exercise price equal to the last reported sale price of the class A common stock as reported on the Nasdaq National Market for the most recent trading day prior to the date of grant. In the event of a merger of MicroStrategy with or into another corporation or another qualifying acquisition event, each option will be assumed or an equivalent option will be substituted by the successor corporation. If the successor corporation does not assume outstanding options or such options are not otherwise exchanged, all outstanding options automatically will become immediately exercisable.

#### *Cash Compensation*

Each Outside Director receives an annual retainer of \$15,000 (in four quarterly installments payable on the first day of each calendar quarter in arrears) for serving on our board of directors, and a fee of \$3,750 for each quarterly meeting of the board of directors that such Outside Director attends in person. Each Outside Director who is a member of the Audit Committee (except the chairperson) also receives \$1,000 for each meeting of the Audit Committee that such member attends in person. The chairperson of each of the Audit Committee and the Compensation Committee also receives an annual retainer of \$7,500 (in four equal quarterly installments payable on the first day of each calendar quarter in arrears), and a fee of \$1,875 for each meeting of their respective committees that such chairperson attends in person. The annual retainer fees described above are prorated for the number of days that the individual served as an Outside Director or as a committee chairperson, as the case may be, during the immediately preceding calendar quarter. Each Outside Director is reimbursed for all reasonable out-of-pocket expenses incurred by him or her in attending meetings of the board of directors and any committee thereof and otherwise in performing his or her duties as an Outside Director, subject to compliance with our standard documentation policies regarding reimbursement of business expenses.

#### **Employment Agreements**

Our employees, including our executive officers, are generally required to enter into confidentiality agreements prohibiting the employees from disclosing any of our confidential or proprietary information. In addition, the agreements generally provide that upon termination, an employee will not provide competitive products or services and will not solicit our customers and employees for a period of one year. At the time of commencement of employment, our employees also generally sign offer letters specifying certain basic terms and conditions of employment. Otherwise, our employees are generally not subject to written employment agreements.

In July 2002, each of Messrs. Bedell, Brown, Klein and Sanchez were granted options to purchase 50,000, 75,000, 70,000 and 35,000 shares of class A common stock, respectively, under our 1999 Plan. The option agreements for each of these grants provide for the acceleration of vesting in the event of a change in control of the Company such that, as of the effective date of the change in control, at least fifty percent of the original grant is fully vested and the remaining unvested portion will vest as to fifty percent of the remaining unvested shares on the last day of the third month after the effective date of the change in control and the remaining unvested shares will vest on the last day of the sixth month after the effective date of the change in control. In addition, these option agreements provide that if, following the change in control, such officer's employment is terminated by MicroStrategy other than for cause or by such officer for good reason, the option will vest in full on the effective date of such termination.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K**

(c) Exhibits

We hereby file as part of this Amendment No. 1 to Form 10-K the exhibits listed in the Index to Exhibits.

**SIGNATURES**

*Pursuant to the requirements of Section 13 or 15(d) 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**  
(Registrant)

By: \_\_\_\_\_ /s/ ERIC F. BROWN

**Name: Eric F. Brown**  
**Title: President and Chief Financial Officer**

Date: May 26, 2004

**INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
10.24*	Stock Option Agreement, dated June 9, 2003, between Jonathan J. Ledecy and the registrant, providing for the grant of a nonstatutory stock option.
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Chairman of the Board of Directors and Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the President and Chief Financial Officer.

\* Management contracts and compensatory plans or arrangements.