AMERICAN TOWER CORP /MA/
Form DEF 14A
April 10, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement.

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).

Definitive Proxy Statement.

Definitive Additional Materials.

Soliciting Material Pursuant to §240.14a-12.

AMERICAN TOWER CORPORATION

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Dear Stockholder:

April 10, 2019

It is my pleasure to invite you to American Tower Corporation s 2019 Annual Meeting of Stockholders, which will be held on Tuesday, May 21, 2019 at 11:00 a.m., local time, in the Braemore/Kenmore Room at the Colonnade Hotel, 120 Huntington Avenue, Boston, Massachusetts 02116.

The official notice of meeting; the proxy statement, which describes in detail the matters to be discussed and voted on at the meeting; and the form of proxy are included with this letter.

Your vote is important. You may vote your shares over the internet; by telephone; by mail, if you received a paper copy of the proxy materials by mail and follow the instructions on the proxy card or voting instruction card; or in person at the meeting. If you vote by proxy prior to the meeting, you may withdraw your proxy and vote in person at the meeting if you wish to do so. Whether or not you plan to attend the meeting in person, I urge you to vote as soon as possible so as to be sure that your shares will be represented at the meeting.

On behalf of all of management and your Board of Directors, I thank you for your continued support.

Sincerely,

James D. Taiclet

Chairman of the Board, President and

Chief Executive Officer

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Letter from the

Lead Independent Director

April 10, 2019

Dear Fellow Stockholders,

I appreciate the opportunity to serve as American Tower s Lead Director, working with a group of dedicated and insightful colleagues, and engaging with you, our valued stockholders. As Directors, it is essential that we guide management in the pursuit of our mutual objective to create long-term value for our stockholders through providing independent oversight of the Company s leadership team, engaging in constructive dialogue concerning business strategy and potential risks facing the Company, assuring development of our people and requiring commitment to sound ethics, governance, social and environmental responsibility.

Independent Board Leadership; CEO Evaluation Process As a Company with a culture of strong performance, having Jim serve as both Chairman and CEO of American Tower drives long-term value creation for our stockholders. It ensures that management and the Board are aligned in our view of opportunities and risks, while driving consistent focus on strategy and execution that support American Tower s role as a leader in the telecommunications industry. As Lead Director, I ensure that we maintain an active dialogue regarding business, financial and governance matters, and I also preside over executive sessions of independent Directors, so that we may guide the alignment of business decisions with the Company s overall strategic direction and determine what adjustments may be needed in terms of considering key matters on the meeting agendas. I also interact with stockholders, when appropriate, to discuss governance related matters and ensure that their viewpoints are represented in the boardroom.

The primary responsibility of the Board is to foster the long-term success of the Company, and a key element in fulfilling this responsibility is establishing our leadership structure. The Nominating and Corporate Governance Committee regularly reviews the current Board structure, including whether the roles of Chairman and CEO should be separated and the duties of the Lead Director, and values the flexibility of determining the best leadership structure based on the Company s needs at the time.

Risk Management The Board oversees the management of the Company s risk exposure. As Directors, we are individually and collectively dedicated to our role as your representatives and we believe that our diverse skills and backgrounds reflect the expertise essential for effective oversight of the business. The Board uses its deep knowledge in areas such as business leadership, operational, industry and global experience to oversee the Company s risk profile, including its approach to capital allocation, its operational footprint and its investment decisions. The Board considers the breadth of the Company s risk management framework when approving its strategy and risk tolerance, and verifies that strategic plans are commensurate with our ability to identify, manage and measure risk appropriately.

Human Capital Our continued commitment to employees was recognized by Forbes, which included us in its list of America s Best Mid-Size Employers and, more recently, in its list of America s Best Employers for Diversity. We strive to attract and retain the very best talent and empower our employees through training and extensive

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opportunities for development. Our robust employee performance review process paired with comprehensive succession planning ensures long-term success of the Company through seamless leadership transitions. In 2018, as a result of our talent management program, two internal successor candidates were promoted to the leadership team after management retirements: Steve Vondran became our new Executive Vice President and President, U.S. Tower Division, and Olivier Puech became our new Executive Vice President and President, Latin America and EMEA. In addition, during the year, as part of our long-term compensation planning efforts, we revised our executive retirement benefits and guidelines to provide for full vesting of performance-based restricted stock unit awards subject to certain conditions being met.

Commitment to Sustainability We published our first standalone sustainability report in 2018 to provide our stakeholders with insight into our achievements and initiatives related to environmental, social and governance matters around the globe. The reduced footprint of shared infrastructure is a key element in achieving a green business model. We have set aspirational goals as a Company to reduce our emissions and are pursuing several hybrid-energy initiatives and renewable energy solutions throughout our markets. Through the American Tower Foundation, we have provided numerous grants to charitable organizations, matched employee donations and donated to natural disaster relief efforts.

We value your support, and we encourage you to share your opinions with us. We are committed not only to delivering solid results, but also to representing your interests in 2019 and beyond. Thank you for your continued support. On behalf of our Board of Directors, we look forward to seeing you at the Annual Meeting.

Sincerely,

Pamela D.A. Reeve

Lead Director

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Notice of

2019 Annual Meeting of Stockholders

Date:	Tuesday, May 21, 2019
Time:	11:00 a.m. local time
Location:	Braemore/Kenmore Room The Colonnade Hotel 120 Huntington Avenue Boston, Massachusetts 02116
Record Date:	March 27, 2019

At the Annual Meeting you will be asked to:

Proposal 1	Elect ten Directors for the ensuing year or until their successors are elected and qualified;
Proposal 2	Ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm for 2019;
Proposal 3	Approve, on an advisory basis, our executive compensation;
Proposal 4	Consider a stockholder proposal to adopt a policy requiring an independent Board Chairman;
Proposal 5	Consider a stockholder proposal to require periodic reports on political contributions and expenditures; and

Transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

HOW YOU MAY VOTE

You may vote if you were a stockholder of record on March 27, 2019 (the record date). To ensure that your shares are represented at the meeting, please vote as soon as possible by one of the following methods:

For more detailed information on voting, please see How do I cast a vote? in the Questions & Answers section beginning on page 79 of this Proxy Statement.

By order of the Board of Directors,

Edmund DiSanto
Executive Vice President, Chief Administrative Officer,
General Counsel and Secretary
Boston, Massachusetts

April 10, 2019

American Tower Corporation

116 Huntington Avenue

Boston, Massachusetts 02116

Whether or not you expect to attend the Annual Meeting, please vote as soon as possible to ensure representation of your shares at the Annual Meeting. You may vote your shares over the internet, by telephone or by mail (as applicable) by following the instructions on the proxy card or voting instruction card.

Materials will be made available on or about April 10, 2019.

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Proxy Statement Summary

The following pages provide a summary of important information you will find in this Proxy Statement. As it is only a summary, please review the complete Proxy Statement before submitting your vote.

Proposals To Be Voted On

Proposal		Board s Voting Recommendation	Page Reference
Proposal No. 1	**Election of Directors**	FOR each nominee	63
Proposal No. 2	**Approval of Independent Accountant**	FOR	70
Proposal No. 3	**Advisory Vote on Executive Compensation**	FOR	71
Proposal No. 4	**Stockholder Proposal to Adopt a Policy Requiring an Independent Board Chairman**	AGAINST	73
Proposal No. 5	**Stockholder Proposal to Require Periodic Reports on Political Contributions and Expenditures**	AGAINST	77

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PROXY STATEMENT SUMMARY

Corporate Responsibility Highlights

We understand that the way we conduct our business is an integral component of the continued success of our Company. As a result, our commitment to responsible corporate citizenship is woven into all aspects of our global culture.

Our five strategic pillars of corporate responsibility **ethics, environment, people, philanthropy** and **performance** are rooted in our core values.

Ethics

Maintain a diverse and independent Board to promote sound corporate governance practices.

Conduct trainings on our Code of Ethics and Business Conduct Policy (Code of Conduct) and Foreign Corrupt Practices Act.

Hold our vendors to high ethical and compliance standards.

Provide our employees and other stakeholders the ability to report a violation through our anonymous, confidential, third-party hotline.

People

Focus on building an inclusive, diverse and high-performing workforce that reflects the global communities in which we do business.

Assist our employees with their career goals through a range of development tools, resources and opportunities.

Ensure that we are compliant with health and safety standards through wide-ranging training programs and comprehensive internal audit processes.

Environment

Philanthropy

Reduce the environmental footprint of communications infrastructure by colocating multiple tenants on a single structure.

Focus on energy and power management solutions to reduce our reliance on fossil fuels and increase usage of renewable energy sources through our Innovation Council.

Install advanced batteries at select sites without grid power for energy conservation and efficiency.

Maintain a dedicated team that works with regulators to understand and optimize our full compliance with environmental laws.

Focus on education and using technology to empower students, teachers and communities in need through grants from the American Tower Foundation, which we launched in 2017.

Provide technology in rural communities in our global markets, such as our Digital Village Squares in India, Nigeria, Ghana and Uganda.

Maintain Company-sponsored volunteer days around the globe and a matching gift program in the U.S. through which the American Tower Foundation matches employees charitable donations

Performance

Consistently deliver strong financial growth across our key operating metrics in order to optimize return to stockholders.

Invest in new and innovative communications real estate solutions in order to retain a competitive position in the wireless industry.

Serve as a thought leader to help ensure that a functioning global Internet of Things ecosystem serves to further key sustainable development goals.

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PROXY STATEMENT SUMMARY

Executive Compensation Philosophy

Under our pay for performance philosophy, 92% of our Chief Executive Officer s (CEO s) compensation and 88% of our other executives compensation is variable and tied to Company and individual performance. Our goal is to reward our executive team for their leadership in meeting key near-term goals and objectives while also positioning the Company to generate sustainable long-term stockholder value.

We Reward Based On

Company annual and three-year performance relative to pre-established financial goals;

Company annual financial performance relative to that of competitor and peer group companies; and

Other relevant considerations, such as retention of executives with a multiyear track record of outstanding performance and proven leadership ability.

Key Features

Double-Trigger Equity Vesting and No Tax Gross-Ups in the event of a Change of Control;

Equity Awards Weighted Toward Long-Term Performance-Based Metrics;

Reasonable Retirement and Welfare Benefits and No Pension Arrangements;

Claw Back Provisions;

Stock Ownership Guidelines;

Anti-Insider Trading Policy, including Prohibition on Hedging and Pledging;

Use of an Independent Compensation Consultant; and

Annual Risk Assessment of Compensation Programs.

2018 Business Highlights

Key Financial Results[1]

Achieved net income for the year of nearly $1.3 billion;

Increased Consolidated Adjusted Funds From Operations (Consolidated AFFO) per Share(2) by nearly 19% to $7.99;
Declared an aggregate of nearly $1.4 billion in cash dividends to common stockholders, including the dividend paid in January 2019 to stockholders of record as of December 27, 2018;
Repurchased over 1.6 million shares of Common Stock for a total of $232.8 million;
Maintained a strong balance sheet, ending the year with $4.3 billion in liquidity;
Maintained our investment grade rating;
Raised nearly $2.6 billion(3) in the debt capital markets; and
Ended the year within our established long-term financial policy of 3-5x net leverage ratio.

u **Total property revenue increased more than**

11%

to $7.3 billion

u **Net income increased more than**

3%

to $1.3 billion

u **Adjusted EBITDA(4)**

increased

more than

14%

to $4.7 billion

u **Consolidated**

AFFO

increased

22%

to $3.5 billion

u **Return on Invested Capital (ROIC)[2] increased to more than**

11%

(1) Definitions of non-GAAP financial measures and reconciliations to GAAP can be found in Appendix A. These results are inclusive of the positive impacts of the Company s settlement with Tata Teleservices Limited and related entities (Tata).

(2) Performance metric under the performance-based restricted stock unit (PSU) program.

(3) Includes 500.0 million of Euro-denominated notes issued in May 2018, based on the Euro/U.S. dollar exchange rate on the date of issuance, as well as a senior unsecured term loan of $1.5 billion and securitized debt of $500.0 million.

(4) Performance metric under the annual performance incentive program.

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PROXY STATEMENT SUMMARY

Asset Expansion in Legacy and New Markets

We expect our 2018 global portfolio expansion efforts in our legacy and new markets to further extend our ability to generate compelling, long-term, sustainable growth. These transactions included:

- Continued expansion of our communications site portfolio in existing markets through the acquisition of nearly 20,000 tower sites in India from Vodafone India Limited and Vodafone Mobile Services Limited (together, Vodafone India), and Idea Cellular Infrastructure Services Limited (Idea Cellular) and a total of 1,335 sites in the United States, Colombia, Mexico, Paraguay and Peru in various transactions;
- Launch of operations in a new market through our acquisition of over 700 communications sites in Kenya from Telkom Kenya Limited (TKL); and
- Expansion of product lines and innovation, such as the acquisition of a portfolio of fiber assets and the right to use certain telecommunications poles in Brazil from Cia Energetica de Minas Gerais SA (Cia Energetica).

Chairman and CEO s Track Record of Success

Mr. Taiclet has served as our Chairman and CEO since 2004. Under his stewardship, American Tower has delivered solid performance while substantially growing its operations and simultaneously returning cash to stockholders. Below are some of the key highlights relating to Mr. Taiclet s tenure with the Company (beginning in February 2004 through December 31, 2018):

- Completed several transformative transactions, including the acquisition of SpectraSite, Inc. in 2005, the acquisition of MIP Tower Holdings LLC in 2013, the transaction with Verizon Communications Inc. (Verizon) in 2015, the acquisition of Viom Networks Limited (Viom) in 2016, the acquisition of FPS Towers in 2017, and in 2018, acquisitions of sites from Idea Cellular and Vodafone India in India, all of which strategically extended the Company s position as a global leader in multitenant communications real estate;
- Expanded our geographic footprint from three countries to 17 countries, while diversifying our tenant base with well-capitalized global mobile network operators;
- Secured rankings in the Fortune 500 and Forbes list of America s Best Mid-Size Employers; and
- Deployed cash to stockholders, including through our stock repurchase program and distributions to preferred and common stockholders in an aggregate of nearly $11.0 billion, including the dividend paid in January 2019.

Executive Pay Structure

ANNUAL BASE SALARY

American Tower provides a competitive level of compensation to its executive officers to attract and retain highly qualified executive talent and reward sustained performance over time. The base salary is determined on an annual basis.

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PROXY STATEMENT SUMMARY

ANNUAL PERFORMANCE INCENTIVE PROGRAM

For 2018, 100% of the target bonus awards for each of the executive officers, other than the CEO, was tied to achievement of the Company s pre-established financial goals. The CEO s target award, however, was 80% tied to achievement of the Company s pre-established financial goals and 20% tied to achievement of pre-established individual performance goals. See Compensation Discussion and Analysis beginning on page 27.

CEO Annual Performance	Other Executive Officers Annual Performance

LONG-TERM INCENTIVE (LTI) PLAN

For 2018, the targeted grant date award value for each executive officer was allocated 60% to PSUs and 40% to restricted stock units (RSUs). Each RSU grant vests 25% annually over four years, commencing one year from the date of grant. See Compensation Discussion and Analysis beginning on page 27.

LTI Plan Composition

The number of PSUs earned is based on achievement of pre-established performance goals: cumulative Consolidated AFFO per Share and average ROIC(1) for a three-year performance period. 70% of the PSU award is based on Consolidated AFFO per Share and 30% is based on ROIC. The actual payout is based on performance levels against these goals. The chart below highlights the payout levels.

PSU Vesting Performance Matrix

(1) Definitions of non-GAAP financial measures and reconciliations to GAAP can be found in Appendix A.

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PROXY STATEMENT SUMMARY

Our Director Nominees

You are being asked to vote on the election of ten Directors. All Directors are elected annually by a majority of votes cast. Detailed information about each Director s background, skill set and areas of expertise can be found beginning on page 64.

				Committee Memberships[1]			
le	Age	Director Since	Independent	Audit	Compensation	Nominating	Other Public Con
ICLET *ident & CEO,* *r Corporation*	58	2003					Lockheed Martin C
DOLAN *CEO, Cohere Technologies, Inc.*	61	2003					None
ORMATS *iates, Inc.*	75	2015					None
RA CANTU	69	2004					None

Ionsanto Company			
North Division)			
EBLEIN	58	2017	Southwest Airlines Honeywell Internat
bal Quality			
ors			
NAB	63	2014	VICI Properties, In
ed Chairman,			
Properties, Inc.			
ED	63	2007	Mallinckrodt plc;
sultant and			Waters Corporation
nance and CFO,			
olutions, Inc.			
REEVE*	69	2002	Frontier Communic Corporation
nt and CEO,			
.			
ARBUTT	69	2006	None
ed Chairman,			
gs, Inc.			
HOMPSON	73	2005	Spok Holdings, Inc
Associates,			

(1) As of December 31, 2018

Sole Management Director

* Lead Director

Member

Chair

Audit Committee Financial Expert

Board of Directors Snapshot for Fiscal Year 2018

Number of Directors: 10

Average Age: 66

Number of Independent Directors: 9

(all except our Chairman)

Number of Directors Added in Last Five years: 3

Number of Board Meetings in 2018: 6

Average Independent Director Attendance in 2018: 96%

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PROXY STATEMENT SUMMARY

Board Diversity

While we do not have a specific diversity policy for our Board of Directors (Board), our Corporate Governance Guidelines provide for selecting Directors who reflect a diverse set of skills, professional and personal backgrounds and experiences. We are proud to have Directors who are highly diverse, including with respect to gender, ethnicity, experience and independence.

Our Board consists of individuals with diverse and complementary business, leadership and financial expertise. Many of our Directors have leadership experience at major U.S. and multinational companies, as well as experience on the boards of other companies and organizations, which provide an understanding of different business processes, challenges and strategies. In addition, many of our Directors have industry and public policy experience that provides insight into issues faced by public companies.

	Diversity	Independence
Director Skills and Qualifications	**50% (30% Women; 20% Ethnic Minorities)**	**90% Independent**
Leadership		
Operational and Management		
Finance/Capital Allocation		
Financial Literacy		
Human Capital		
Wireless Industry		
Real Estate Investment Trust (REIT)		
International		
Prior Board and Governance		
Thought Leadership		
Government and Public Policy		

Key Corporate Governance Best Practices

Annual Election of All Directors

All Directors Except Chairman are Independent (Our CEO serves as Chairman and is the only Management Director)

Lead Independent Director

Stockholders Right to Act by Written Consent

Anti-Insider Trading Policy, including Anti-Hedging and Anti-Pledging Provisions

Claw Back Provisions

Only Independent Directors Serve on Board s Standing Committees

Majority Voting for Directors

Independent Directors Meet Without Management Present

Annual Review of Board Composition and Succession Planning

One Vote per Share of Common Stock

Regular Stockholder Engagement

Proxy Access (3%, 3 years, 25% of Board)

Code of Conduct

Corporate Governance Guidelines

Disclosure Committee for Financial Reporting

Stock Ownership Requirements for Directors and Executives

Double-Trigger Equity Vesting and No Tax Gross-Ups in a Change of Control

Stockholder Ability to Call Special Meetings (25% Ownership Threshold)

Annual Enterprise Risk Assessment

Review and Approval Policy for Related Party Transactions

Independent Compensation Consultant

Annual Review of CEO Performance, Overseen by our Lead Independent Director

Onboarding Program for New Directors

Continuing Education Programs for Directors

No Stockholder Rights Plans

Annual Advisory Vote on Executive Compensation

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PROXY STATEMENT SUMMARY

Related Party Transactions, Director Independence and Code of Conduct

For fiscal year 2018, there were:

NO related party transactions
NO transactions that affected our Directors independence
NO violations or waivers of our Code of Conduct with respect to our Directors or executive officers

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Corporate Governance

General

Our Board is committed to strong corporate governance practices and dedicated to ensuring that American Tower is managed for the long-term benefit of our stockholders and other stakeholders. To fulfill this role, the Board and its three standing committees Audit; Compensation; and Nominating and Corporate Governance (Nominating) meet throughout the year and engage in meaningful discussions with management to ensure that the Board is informed regarding the Company s activities, operating plans and strategic initiatives.

To promote full compliance with all applicable corporate governance standards and remain aligned with best practices, the Board has adopted corporate governance principles and procedures, which it reviews and amends as necessary. We also continuously review guidance and interpretations provided by the Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE). Furthermore, we engage in meaningful discussions with our stockholders regarding governance issues and potential improvements.

You can access the charters for each of our current committees, our Corporate Governance Guidelines, and Amended and Restated By-Laws (By-Laws) in the Investor Relations section of our website, www.americantower.com, and our Code of Conduct in the Corporate Responsibility Ethics section of our website. You may also request such documents to be mailed to you by writing to: American Tower Corporation, 116 Huntington Avenue, Boston, Massachusetts 02116, Attention: Investor Relations. Each committee charter, our Corporate Governance Guidelines and our Code of Conduct are reviewed annually.

Board of Directors

Our Board is committed to highly effective corporate governance that is responsive to stockholders, ensuring that the Company delivers on its strategic objectives.

BOARD LEADERSHIP STRUCTURE

The Board is led by our President and CEO, Mr. Taiclet, who assumed the role of Chairman of the Board in February 2004 and is the only management Director. Ms. Reeve is our independent Lead Director, a role she has held since May 2004 when appointed by the independent Directors. All Directors, other than the CEO, are independent and all members of the three standing committees are independent.

The Nominating Committee regularly reviews the current Board structure, including the roles of Chairman and CEO and the duties of the Lead Director. The Nominating Committee continues to believe that having a single Chairman and CEO with a strong independent Lead Director, complemented by an independent Board, has provided an appropriate balance and has contributed to our pursuit of sound corporate governance and Board effectiveness. We believe that having our CEO, the individual most familiar with our day-to-day operations, chair regular Board meetings ensures that key business issues and stockholder interests are brought to the attention of our Board in a timely manner. Mr. Taiclet s dual role has been advantageous to the Company as he has demonstrated the leadership necessary to focus the Board s time and attention on the most critical matters and facilitate constructive dialogue among Board members. His role also provides a unified vision for the Company and fosters effective strategic execution, allowing the Board to be responsive to industry trends and stakeholder interests with direct input from Mr. Taiclet. In addition, the Company s growth and strong performance since Mr. Taiclet was appointed Chairman in 2004 demonstrates that this leadership structure has been effective. The Board recognizes that the combined Chairman and CEO role has worked well and that an introduction of a split board leadership structure would not be in the best interests of the Company (see the Board s Statement in Opposition to Proposal 4 on page 74 for additional insight).

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CORPORATE GOVERNANCE

Board of Directors

Consistent with our Corporate Governance Guidelines, the Lead Director performs the following responsibilities to co-manage the Board effectively while providing independent oversight:

- Assisting the Chairman and executive management on communications with Directors regarding strategic, business, financial and governance matters;
- Assisting the Chairman in communicating with and assigning tasks to the other Board members;
- After obtaining input from the other independent Directors, working with the Chairman to approve agendas, materials and schedules for upcoming Board meetings and reviewing meeting schedules to ensure that there is sufficient time for discussion of all agenda items;
- Together with the Chairman of the Compensation Committee, preparing and conducting the annual performance review of the CEO, with input from each Director on the CEO s performance and achievements during the year and from the Compensation Committee on proposed compensation matters; and
- Serving as Chairperson of all Board meetings at which the Chairman is not present, including the Board s executive sessions of independent Directors, which are held at least once per quarter.

Other duties include:

- Engaging in consultation and direct communication with major stockholders, including responding to inquiries, as appropriate;
- Assuring that a succession plan is in place for the CEO;
- Meeting with the CEO frequently to discuss strategy and meeting regularly with senior management other than the CEO;

Serving as liaison for, and facilitating, a working relationship between the independent Directors and the CEO;

Soliciting direct feedback from independent Directors;

Calling meetings of the independent Directors at any time, as necessary;

Leading discussions regarding risk management;

Participating in the interview process for prospective Directors;

Ensuring timely and appropriate information flow to the Board; and

Performing such other duties as the Board may from time to time designate.

SELECTION OF DIRECTORS AND BOARD REFRESHMENT

In order to maintain sustained growth of the Company, it is important we continue to have a Board with the requisite competencies to provide sound stewardship to the Company. We are committed to ensuring that our Board is made up of Directors who bring a wealth of leadership experience, diverse viewpoints, knowledge and skills that benefit our Company and stockholders. The Nominating Committee reviews the characteristics, skills, background and experience of the Board as a whole and its individual members on an ongoing basis to assess those traits against the needs identified to benefit the Company, its management and its stockholders.

Our Board consists of Directors with a range of tenure, with our longer-serving Directors providing important institutional knowledge and experience and our newer Directors bringing fresh perspectives to deliberations. The Board, including the Nominating Committee, believes that periodic Board refreshment is necessary to optimize the Board s effectiveness. As we expand our operations throughout the world, the Nominating Committee strives to maintain a Board with the knowledge and skills necessary to oversee a global company effectively.

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CORPORATE GOVERNANCE

Board of Directors

Board Succession Planning

The Nominating Committee works with the Chairman and Lead Director to develop a Board succession plan that effectively promotes the Company s long-term strategic objectives. The Nominating Committee continuously evaluates the Board s composition in light of the Company s strategy and regularly reviews the current tenure of the Board. The Nominating Committee selects Directors who will prove to be strategic assets capable of assessing and addressing risks, trends and opportunities for the Company in the future.

Process for Director Selection / Nomination

On a quarterly basis, the Nominating Committee reviews the size and composition of the Board using a rigorous matrix of identified skills, experience and other criteria relevant to a global, publicly traded company in the mobile telecommunications infrastructure industry. As described in our Corporate Governance Guidelines, the Nominating Committee assesses director candidates based on specific criteria as outlined under the section Director Skills and Qualifications Criteria on page 12 below. Although the Nominating Committee does not assign specific numeric weights to these skills in its assessments, any Director candidate is expected to possess substantive knowledge or experience in several of the areas specified in the criteria. In addition, our Board believes it is important to review its effectiveness and that of its standing committees on an annual basis and, accordingly, engages with an outside independent consultant to conduct that evaluation and provide critical feedback. The feedback generated from this process assists the Board, and particularly the Nominating Committee, in determining the composition and skill set required for our Board to function effectively and oversee management s implementation of the Company s strategic goals and priorities.

In considering candidates for inclusion in the Board s slate of recommended Director nominees, the Nominating Committee recommends individuals whom it believes can best enhance the success of the business and represent stockholder interests through the exercise of sound judgment in light of the full Board s experience. The Nominating Committee considers diversity to be a key criterion in searching for new director candidates. To identify and evaluate Director candidates, the Nominating Committee requests recommendations from Board members and others, reviews and discusses biographical information and background material relating to potential candidates and, along with other Board members, interviews selected potential candidates. The Nominating Committee may then choose to present such candidates to the Board for consideration.

Upon selection of a candidate, the individual is interviewed by members of the Board and an analysis is prepared to further assess the suitability of the candidate to address the needs of the Board. If the candidate is selected for recommendation to the Board, a review of his or her independence and potential conflicts is conducted.

As a stockholder, you may recommend to the Nominating Committee an individual for consideration as a potential Director candidate. To do so, please submit the candidate s name, together with appropriate biographical information and background materials, to: David E. Sharbutt, Chairperson of the Nominating and Corporate Governance Committee, c/o General Counsel, American Tower Corporation, 116 Huntington Avenue, Boston, Massachusetts 02116. If the biographical and background material provided for a stockholder recommended candidate is appropriate, the Nominating Committee will evaluate the candidate by following substantially the same process, and applying substantially the same criteria, as for candidates submitted by Board members. The Nominating Committee will review each candidate s qualifications in light of the Board s needs, given the current mix of Director attributes.

Stockholders proposing Director nominations must comply with the advance notice and specific information requirements in our By-Laws, which include, among other things, the disclosure of hedging, derivative interests and other material interests of the nominating stockholder and Director nominee. In addition, each Director nominee proposed by a stockholder must deliver, promptly following the stockholder meeting at which such nominee is elected or re-elected, a statement that he or she agrees to tender an irrevocable advance resignation in accordance with our Corporate Governance Guidelines.

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CORPORATE GOVERNANCE

Board of Directors

DIRECTOR SKILLS AND QUALIFICATIONS CRITERIA

As demonstrated in the Directors biographies beginning on page 64 and the Board Diversity section in the Proxy Statement Summary on page 7, the Nominating Committee focuses on diversity, including traditional diversity categories such as gender, race and national origin, as well as diversity in experience and skills. The Nominating Committee actively seeks out qualified women, persons of color and other individuals from minority groups to include in the pool from which new candidates are selected. The Nominating Committee incorporates this broad view of diversity into its nomination process and seeks to maintain a Board that is strong in its collective knowledge and has a diversity of skills, ability, perspectives and experience. The Nominating Committee evaluates each individual Director candidate in the context of the Board as a whole, based on the following criteria:

Director Skills/Qualifications	Relevance to American Tower
PRIOR EXPERIENCE IN A LEADERSHIP/ EXECUTIVE ROLE	Directors with leadership experience, especially in an executive role, strongly enhance the Board s ability to manage risk and oversee operations.
OPERATIONAL AND MANAGEMENT EXPERIENCE	Individuals who possess managerial and day-to-day operational experience enhance the Board s ability to understand the development, implementation and assessment of our operations and business strategy.
FINANCE/CAPITAL ALLOCATION EXPERIENCE	Directors with finance experience assist in evaluating our financial vision and capital allocation strategy.

FINANCIAL LITERACY	Directors with financial literacy allow effective oversight and understanding of financial reporting, financing transactions, complex acquisitions and internal controls.
HUMAN CAPITAL EXPERIENCE	Directors with human capital experience are valuable to help attract, motivate and retain top candidates for positions at the Company and implement effective succession planning.
WIRELESS INDUSTRY EXPERIENCE	Directors with experience in our industry have the knowledge needed to leverage business relationships, develop new business and provide operational insight.
REIT EXPERIENCE	Directors from the REIT space provide the Board insight as to optimizing the execution of effective business strategies with the REIT structure while understanding the qualifications to maintain REIT status and promote the Company s position with REIT investors.
INTERNATIONAL EXPERIENCE	Given that we operate in 17 countries across five continents, international experience helps with understanding and anticipating opportunities and challenges worldwide.
PRIOR BOARD AND GOVERNANCE EXPERIENCE	Corporate governance experience supports our goals of strong Board and management accountability, transparency and protection of stockholder interests.

THOUGHT LEADERSHIP	Directors with experience in working with business and policy thought leaders help further our strategic vision to lead wireless connectivity around the globe.
GOVERNMENT AND PUBLIC POLICY	Directors with governmental and public policy experience help us understand and work with governments and regulatory agencies across our global footprint.

CORPORATE GOVERNANCE

Board of Directors

STOCKHOLDER OUTREACH

We believe that regular, transparent stockholder engagement is essential to American Tower s long-term success. In 2018, we continued our practice of engaging with stockholders to understand their perspectives on corporate governance, executive compensation, sustainability and other matters. We made presentations at financial and industry conferences, met with financial analysts and investment firms, held in-person meetings with institutional stockholders and responded to inquiries from our stockholders. Through these discussions, we received valuable feedback from our stockholders, which, among other things, impacted our compensation design and corporate governance practices. For instance, in our compensation design, we received feedback from certain of our stockholders to assure that we were closely aligning the annual incentive bonus award payouts to clear, transparent goals for purposes of evaluating pay for performance. Accordingly, at the beginning of 2018, the Committee redesigned the annual incentive program for each of our executive officers, other than the CEO, so that 100% of the target award would be tied solely to achievement of pre-established Company financial goals. In addition, in response to investor feedback and internal drivers, we published our first sustainability report in 2018 to provide greater transparency in our environmental, social and governance initiatives. In 2017, we implemented proxy access, to give our stockholders a significant voice in director elections.

	Proxy Access
Our By-Laws permit a group of up to 20 stockholders who have owned at least three percent (3%) of American Tower stock continuously for at least three (3) years the ability to submit Director nominees up to twenty-five percent (25%) of the Board for inclusion in our proxy statement if the stockholder(s) and the nominee(s) satisfy the requirements specified in our By-Laws.	Holders of at least **3% of AMT stock** held by up to 20 stockholders

Holding the stock

continuously for at least

3

years

Can nominate up to

25%

of the Board for election at an annual meeting of stockholders

BOARD MEETINGS

During fiscal year 2018, our Board held four regular meetings in person and two special meetings by telephone. Each current Director attended at least 75% of the aggregate number of meetings of our Board and the committees on which he or she served. All of our Directors attended our 2018 Annual Meeting of Stockholders. We encourage, but do not require, our Directors to attend each annual meeting of stockholders.

In determining whether to recommend a Director for re-election, the Nominating Committee also considers the Director s past attendance at meetings and participation in, and contributions to, the activities of the Board and standing committees.

DIRECTOR ONBOARDING AND CONTINUING EDUCATION

To familiarize new Directors with American Tower s business, strategies and policies, and to assist new Directors in developing Company and industry knowledge to optimize their service on the Board, we conduct a robust orientation program for new

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CORPORATE GOVERNANCE

Board of Directors

Directors, which includes, among other things, a presentation on our business and wireless infrastructure sector, each of our regional markets, our capital structure, board and committee responsibilities, corporate responsibility (including the American Tower Foundation), legal and risk management, corporate governance guidelines and policies and securities trading and reporting. Because we believe that our Directors should be continually educated regarding corporate governance processes and practices, our business and our industry, we periodically conduct Board education sessions, often using external experts. The Nominating Committee annually reviews that year s Director training initiatives to determine programs for the upcoming year. Additionally, we encourage each independent Director to attend, annually and at the Company s expense, at least one board education course offered by either an academic institution or a professional service organization.

DIRECTOR INDEPENDENCE

The NYSE rules effectively create a two-step process for determining whether a Director qualifies as independent. First, a Director must satisfy the bright-line standards for independence established by the NYSE. Second, the Board must affirmatively determine that the Director has no material relationship with the Company, either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company.

As set forth in our Corporate Governance Guidelines, the Board has established guidelines to help it determine whether a Director has a material relationship with the Company. Under these guidelines, a Director is not considered to have a material relationship with the Company solely on the grounds that he or she:

- is an executive officer or employee, or has an immediate family member who is an executive officer, of a company that makes payments to, or receives payments from, us for property or services, unless the amount of such payments or receipts, in any of the three fiscal years preceding the determination, exceeded the greater of $1 million or two percent (2%) of such other company s consolidated gross revenues;

- is an executive officer of another company that is indebted to us, or to which we are indebted, unless the total amount of either company s indebtedness to the other is more than five percent (5%) of the total consolidated assets of the company at which he or she serves as an executive officer;

- is a director of another company that does business with us, provided that he or she owns less than five percent (5%) of the outstanding capital stock of the other company and recuses himself or herself from any deliberations of our Board with respect to such other company; or serves as an executive officer of any charitable organization, unless our charitable contributions to the organization, in any of the three fiscal years preceding the determination, exceeded the greater of $1 million or two percent (2%) of such charitable organization s consolidated gross revenues.

In addition, ownership of a significant amount of our Common Stock, by itself, does not constitute a material relationship.

For relationships not covered by these guidelines, the other independent Directors will determine whether a material relationship exists, based upon the recommendation of the Nominating Committee. No immediate family relationship exists between any of our Directors or executive officers and any other Directors or executive officers. The Board has determined that, based on his or her compliance with the Board s established guidelines, each of American Tower s non-management Directors has no material relationship with us and is independent under Section 303A.02 of the NYSE listing standards. In making its assessment, the Board determined that each of Messrs. Hormats and Lara and Ms. Reed had no relationship with the Company, other than being a Director or stockholder. The Board also noted that Mr. Dolan currently serves as an advisor to the enterprise business at Verizon. While Mr. Dolan is not a director or executive officer of Verizon, he will recuse himself if transactions involving or relating to the Verizon enterprise business are discussed at Board meetings. With respect to Messrs. Macnab, Sharbutt and Thompson and Mses.

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Lieblein and Reeve, the Board determined that relationships that existed with the Company were immaterial. Specifically, the Board considered that each of Messrs. Macnab, Sharbutt and Thompson and Mses. Lieblein and Reeve served or currently serves as a director (or executive officer in the case of Mr. Macnab) of a company that does business with us, as follows: Mr. Macnab served as a director and executive officer of National Retail Properties, Inc. until April 2017; Mr. Sharbutt currently serves as a director of Flat Wireless, LLC; Mr. Thompson currently serves as a director of Spok Holdings, Inc.; Ms. Lieblein currently serves as a director of Southwest Airlines Co.; and Ms. Reeve currently serves as a director and chair of Frontier Communications Corporation. In each case, the Board determined that such service was in accordance with the NYSE listing standards and our Corporate Governance Guidelines in that none of these Directors beneficially owns five percent (5%) or more of the outstanding capital stock of the applicable company, each recuses himself or herself from any deliberations of the Board with respect to the applicable company and, in each case, payments made to or received from each applicable company were less than $1 million or two percent (2%) of both the Company s or the applicable company s revenue in fiscal year 2018.

BOARD COMMITTEES

Our Board has three standing committees: the Audit Committee, the Compensation Committee and the Nominating Committee. Only independent Directors serve on the standing committees.

Audit Committee

Members:	**Key Responsibilities:**
JoAnn A. Reed (Chair)	
Grace D. Lieblein	Oversees management s financial reporting processes.
Craig Macnab	
Meetings in 2018: 8	Meets with our independent registered public accounting firm, outside the presence of management, to discuss our financial reporting, including internal accounting controls and policies and procedures.

Approves all fees related to audit and non-audit services provided by the independent public accounting firm.

Has the sole authority to appoint, retain, terminate and determine the compensation of our independent registered public accounting firm.

Oversees our systems of internal accounting and financial controls.

Reviews the global internal audit plan, including the annual fraud risk assessment.

Reviews the annual independent audit of our financial statements.

Reviews our financial disclosures.

Reviews and implements our Code of Conduct in conjunction with oversight by the Ethics Committee.

Oversees the establishment and implementation of whistle-blowing procedures.

Oversees risk, litigation, cybersecurity and other compliance matters.

Each member of the Audit Committee is an audit committee financial expert under SEC rules and has the accounting or related financial-management expertise required under NYSE rules. In addition, each member is independent under the additional independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended (Exchange Act). No Audit Committee member serves on the audit committee of more than two other public companies.

The Audit Committee s meetings in 2018 were designed to facilitate and encourage communication among the members of the Audit Committee, management, our internal auditors and our independent registered public accounting firm, Deloitte & Touche LLP. Prior to each earnings release, the Audit Committee met with management and our auditors to review the financial results.

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CORPORATE GOVERNANCE

Board of Directors

Compensation Committee

Members:	Key Responsibilities:
Samme L. Thompson (Chair) Gustavo Lara Cantu Raymond P. Dolan Craig Macnab **Meetings in 2018: 6**	Leads the Board in establishing compensation policies for our executive officers and the Board, including approving employment agreements or arrangements with executive officers. Reviews and approves individual and overall corporate goals and objectives related to executive compensation; evaluates executive performance in light of those goals and objectives; and determines executive compensation levels based on this evaluation, including as it relates to our CEO. Regularly assesses our compensation plans to determine whether any elements create an inappropriate level of risk. Administers our equity incentive plans, approving any proposed amendments or modifications. Reviews our compensation programs. Oversees our stock ownership guidelines.

Regularly reviews executive compensation market trends, recommending changes to programs or processes accordingly.

Reviews Compensation Committee reports for inclusion in appropriate regulatory filings.

For more information on the Compensation Committee s role and our processes and procedures for determining executive compensation, see Compensation Discussion and Analysis beginning on page 27.

Nominating and Corporate Governance Committee

Members

David E. Sharbutt (Chair)

Robert D. Hormats

Pamela D.A. Reeve

Meetings in 2018: 4

Key Responsibilities:

Identifies and recommends individuals to serve on the Board and its committees.

Develops and makes recommendations with respect to our Corporate Governance Guidelines, including the appropriate size, composition and responsibilities of the Board and its committees.

Reviews corporate governance best practices and market trends.

Reviews and approves or ratifies any related party transactions.

Reviews any contemplated outside directorships of current Board members.

Establishes performance criteria for the annual evaluation of the Board and its committees, and oversees the annual self-evaluation by Board members.

Responds to stockholder requests and inquiries.

Reviews and recommends Director training initiatives, and reviews Director onboarding program.

Oversees the sustainability reports.

Advises the Board with respect to Board committee charters, composition and protocol, including the current Board structure.

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CORPORATE GOVERNANCE

Board of Directors

ANNUAL EVALUATION

To identify areas that are effective and areas for improvement, our Board, with oversight by the Nominating Committee, conducts annual evaluations of its performance and that of each of its three standing committees. The Board recognizes that a robust and constructive evaluation process is essential to good governance and effectiveness. The table below summarizes the process followed in 2018. We expect to conduct a similar Board and committee self-evaluation process in 2019.

Identification of Third-Party Consultant: Information Gathering	The Nominating Committee hired an independent consultant to conduct the Director self-evaluation process. The consultant used a variety of evaluation formats, including: interviews and discussion sessions with each committee s members, individual Directors, the full Board and members of senior management who interact with the Board; surveys of each Board member to facilitate an objective, independent assessment of the effectiveness of the Board and applicable committees; and meetings of the Board and each committee to assess the Board and committee performance firsthand. This process was intended to encourage candid feedback from Directors regarding the actions of the Board and

	the standing committees. Information gathered included Board and committee effectiveness and performance, agenda topics, materials, skills, leadership and strategy. Board members were also invited to discuss the performance of the Lead Director.
Review and Assessment: Report to Nominating Committee and Board	The independent consultant: aggregated the results of its observations, interviews, feedback and surveys regarding Director performance, Board dynamics and effectiveness of the Board and the committees; and presented the findings to our Nominating Committee and full Board. The data identified any themes or issues that had emerged and included suggestions for areas of improvements for each committee and the Board and an action plan for implementation of the changes suggested. The full Board reviewed the results of the consultant s assessment and each committee reviewed its results.
Action by the Nominating Committee	The Nominating Committee: used these results to review and assess the Board s and each committee s composition and required skill sets, responsibilities, structure, processes and effectiveness; and assessed the responsive actions to be taken to address areas of improvement in the performance of the Board and each of the committees.

This included succession planning and an assessment as to the need for specific skills, experience, and perspectives which would benefit the Board in the future. The findings were compared against the strategic objectives of the Company and the skills matrix in order to address future needs of the business.

DIRECTOR COMPENSATION

As of December 31, 2018, our standard compensatory arrangement with our non-management Directors included the following:

- annual retainer of $85,000;
- annual payment of $10,000 for each committee on which a Director serves (except that members of the Audit Committee receive $15,000);
- annual payment of $10,000 to the Chairperson of the Nominating Committee and $15,000 to the Chairpersons of the Audit and Compensation Committees; and
- annual payment of $30,000 to the Lead Director of the Board.

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Board of Directors

On March 12, 2018, based on their performance in the prior year and expected future contributions to the Company, we granted each of the non-management Directors 1,241 RSUs, which will fully vest and settle in shares of Common Stock on the one-year anniversary of the grant.

The following table provides information regarding the compensation of each non-management Director who served on our Board during the year ended December 31, 2018. Information regarding the compensation of Mr. Taiclet may be found under Executive Compensation beginning on page 52.

DIRECTOR COMPENSATION FOR 2018

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards ($)(1)(2) (c)	Total($) (h)
Raymond P. Dolan	$ 95,000	$180,044	$ 275,044
Robert D. Hormats	$ 95,000	$180,044	$ 275,044
Gustavo Lara Cantu	$ 95,000	$180,044	$ 275,044
Grace D. Lieblein	$100,000	$180,044	$ 280,044

Craig Macnab	$105,000	$180,044	$ 285,044
JoAnn A. Reed	$115,000	$180,044	$ 295,044
Pamela D.A. Reeve	$125,000	$180,044	$ 305,044
David E. Sharbutt	$112,500	$180,044	$ 292,544
Samme L. Thompson	$110,000	$180,044	$ 290,044

(1) The amount in column (c) reflects the aggregate grant date fair value of awards granted for the fiscal year ended December 31, 2018. The aggregate grant date fair value of the awards was calculated by multiplying the number of shares of Common Stock underlying the RSU awards by $145.08, the closing market price of shares of our Common Stock on the grant date, March 12, 2018.

(2) No stock option awards were granted during the fiscal year ended December 31, 2018. As of December 31, 2018, each non-management Director who served on our Board during 2018 held the following shares of Common Stock underlying the RSU awards and outstanding options to purchase Common Stock. As of December 31, 2018, all of the following options were fully vested and exercisable.

Name	Number of Unvested Shares Underlying Restricted Stock Unit Award (#)	Market Value of Unvested Shares Underlying Unvested Restricted Stock Units ($)(i)	RSU Grant Date	Number of Securities Underlying Outstanding Options (#)	Option Exercise Price ($)	Option Grant Date
Raymond P. Dolan				3,653	$50.78	3/10/2011

				3,590	$62.00	3/12/2012
				3,239	$76.90	3/11/2013
				5,054	$81.18	3/10/2014
				4,971	$94.57	3/10/2015
	1,241	$196,314	3/12/2018			
Robert D. Hormats	1,241	$196,314	3/12/2018			
Gustavo Lara Cantu	1,241	$196,314	3/12/2018			
Grace D. Lieblein	1,241	$196,314	3/12/2018			
Craig Macnab				5,953	$94.57	3/10/2015
	1,241	$196,314	3/12/2018			

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Risk Oversight

Name	Number of Unvested Shares Underlying Restricted Stock Unit Award (#)	Market Value of Unvested Shares Underlying Unvested Restricted Stock Units ($)[i]	Underlying RSU Grant Date	Number of Securities Underlying Outstanding Options (#)	Option Exercise Price ($)	Option Grant Date
JoAnn A. Reed				7,152	$28.39	3/10/2009
				4,167	$43.11	3/10/2010
				3,653	$50.78	3/10/2011
				3,590	$62.00	3/12/2012
				3,239	$76.90	3/11/2013

				5,054	$81.18	3/10/2014				
				4,971	$94.57	3/10/2015				
	1,241	$196,314	3/12/2018							
Pamela D.A. Reeve				4,167	$43.11	3/10/2010				
				3,653	$50.78	3/10/2011				
				3,590	$62.00	3/12/2012				
				3,239	$76.90					
						3/1ense	$ 2,078	$ 0	$ 0	

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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.

Non-GAAP Financial Measures

We are providing a supplemental financial measure for income from continuing operations that excludes the impact of our share-based compensation arrangements. This financial measure is not a measurement of financial performance under generally accepted accounting principles in the United States (GAAP) and, as a result, this financial measure may not be comparable to similarly titled measures of other companies. Management uses this non-GAAP financial measure internally to help understand, manage, and evaluate our business performance and to help make operating decisions. We believe that this non-GAAP financial measure is also useful to investors and analysts in comparing our performance across reporting periods on a consistent basis because it excludes a significant non-cash expense that we believe is not reflective of the Company s general business performance. In addition, accounting for share-based compensation arrangements requires significant management judgment and the resulting expense could vary significantly in comparison to other companies. Therefore, we believe the use of this non-GAAP financial measure can also facilitate comparison of our operating results to those of our competitors.

Non-GAAP financial measures are subject to material limitations as they are not in accordance with, or a substitute for, measurements prepared in accordance with GAAP. For example, we expect that share-based compensation expense, which is excluded from our non-GAAP financial measure, will continue to be a significant recurring expense over the next four years and is an important part of the compensation provided to certain executives. Our non-GAAP financial measure is not meant to be considered in isolation and should be read only in conjunction with our Consolidated Financial Statements, which have been prepared in accordance with GAAP. We rely primarily on such Consolidated Financial Statements to understand, manage, and evaluate our business performance, and use the non-GAAP financial measure only supplementally.

The following is a reconciliation of our non-GAAP financial measure to its most directly comparable GAAP measure (in thousands) for the periods indicated:

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011
Reconciliation of non-GAAP income from continuing operations:			
Income from continuing operations	$ 19,440	$ 33,099	$ 20,866
Share-based compensation expense	2,078	0	0
Non-GAAP income from continuing operations	$ 21,518	$ 33,099	$ 20,866

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 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, valuation of net deferred tax assets, share-based compensation, and fair value measurements of our derivative financial instruments have a material impact on our financial statements and are discussed in detail throughout our analysis of the results of operations discussed below. In some cases, changes in accounting estimates are reasonably likely to occur from period to period.

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In addition to evaluating estimates relating to the items discussed above, we also consider other estimates and judgments, including, but not limited 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.

We do 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. Except as may be the case with respect to the sale of an investment described in Note 9, Cost Method Investment, to the Consolidated Financial Statements, we do not have any material related party transactions.

Revenue Recognition. We recognize revenue from sales of software licenses to end users upon:

1) persuasive evidence of an arrangement, as provided by agreements, contracts, purchase orders or other arrangements, generally executed by both parties;

2) existence of a fixed or determinable fee;

3) delivery of the software; and

4) determination that collection is reasonably assured.

When the fees for software upgrades and enhancements, technical support, consulting, and education are bundled with the license fee, they are unbundled for revenue recognition purposes using vendor specific objective evidence (VSOE) of fair value of the elements.

Product support or post contract support (PCS) revenue is derived from providing technical software support and software updates and upgrades to customers. PCS revenue is recognized ratably over the term of the contract, which in most cases is one year. Our VSOE for PCS, which includes updates, upgrades, and enhancements, is determined based upon the optional stated renewal fee for PCS in the contract, which is the price the customer is required to pay when PCS is renewed. Additionally, the optional stated renewal fee used to establish VSOE for PCS in a software transaction must be above our minimum substantive VSOE rate for PCS. If a stated renewal rate is considered non-substantive, VSOE of PCS has not been established, and we recognize all revenue under the arrangement ratably over the PCS period. A minimum substantive VSOE rate is determined based upon an analysis of historical sales of PCS. For a renewal rate to be non-substantive, we believe it must be significantly lower than our minimum VSOE rate. We consider a 10% variance below our minimum VSOE rate to be significant. It is rare for us to have an arrangement that includes a renewal rate that is below the minimum VSOE rate.

Revenue from consulting, education, and subscription services is recognized as the services are performed. Our VSOE for services other than PCS is determined based upon an analysis of our historical sales of each element when sold separately from software.

For new offerings of services other than PCS or service offerings that have not had a sufficient history of sales activity, we initially establish VSOE based on the list price as determined by management with the relevant authority. Each service offering has a single list price in each country where sold.

If VSOE exists for all undelivered elements and there is no such evidence of fair value established for delivered elements, the arrangement fee is first allocated to the elements where evidence of fair value has been established and the residual amount is allocated to the delivered elements. If evidence of fair value for any undelivered element of an arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value exists for undelivered elements or until all elements of the arrangement are delivered, subject to certain limited exceptions.

If an arrangement includes acceptance criteria, revenue is not recognized until we can objectively demonstrate that the software or service can meet the acceptance criteria or the acceptance period lapses, whichever occurs earlier. If a software license arrangement obligates us to deliver specified future products or upgrades, revenue is recognized when the specified future product or upgrades are delivered or when the obligation to deliver specified future products expires, whichever occurs earlier. If a software license arrangement obligates us to deliver unspecified future products, then revenue is recognized on a subscription basis, ratably over the term of the contract.

License revenue derived from sales to resellers or OEMs who purchase our products for resale is recognized upon sufficient evidence that the products have been sold to the end user, provided all other revenue recognition criteria have been met. Our standard software license and reseller agreements do not include any return rights other than the right to return non-conforming products for repair or replacement under our standard product warranties. During the last three fiscal years, we have not experienced any product returns related to warranty claims.

We generally offer either commercial discounts or referral fees to our channel partners, depending on the nature of services performed. Revenue recognized from transactions with channel partners involved in resale or distribution activities is recorded net of any commercial discounts provided to them. Referral fees paid to channel partners not involved in resale or distribution activities are expensed as cost of revenues and, during the last three fiscal years, were not significant.

Our standard software license agreements do not include any price protection or similar rights. We offer price protection to certain government agencies as required by applicable laws and regulations. For example, transactions under our General Services Administration Federal Supply Schedule contract must comply with the Price Reductions clause. In addition, certain government agencies have the right to cancel contracts for convenience. During the last three fiscal years, amounts related to price protection or similar rights clauses and contracts cancelled for convenience were not significant.

Amounts collected prior to satisfying our revenue recognition criteria are included in net deferred revenue and advance payments in the accompanying Consolidated Balance Sheets.

Software revenue recognition requires judgment, including determinations about whether collectibility is reasonably assured, the fee is fixed and determinable, a software arrangement includes multiple elements, and if so, whether VSOE exists for those elements. Judgment is also required to assess whether future releases of certain software represent new products or upgrades and enhancements to existing products.

We also generate subscription services revenues primarily from MicroStrategy Cloud, a cloud-based analytics PaaS. Subscription services revenues include subscription fees from customers for access to the full breadth of the MicroStrategy Analytics Platform and MicroStrategy Mobile capabilities, database services, and data integration services. Our standard arrangements with customers generally do not provide the customer with the right to take possession of the software supporting the cloud-based application service at any time. As such, these arrangements are considered service contracts and revenue is recognized ratably over the service period of the contract, following completion of the set-up service. Any related set-up service fees are recognized ratably over the longer of the contract period or the estimated average life of the customer relationship.

Our MicroStrategy Cloud subscription services are generally offered as stand-alone arrangements or as part of arrangements that include professional services. If deliverables in a multiple-element arrangement have stand-alone value upon delivery, we account for each such deliverable separately. We have concluded that our subscription services and our professional services each have stand-alone value. When we enter into multiple-element arrangements that include subscription services and professional services, the total arrangement consideration is allocated to each of the deliverables based on the relative selling price hierarchy. We determine the relative selling price for each deliverable using VSOE of selling price, if available, or our best estimate of selling price (BESP), if VSOE is not available. We have determined that third-party evidence of selling price (TPE) is not a practical alternative due to differences in our services offerings as compared to other companies and the lack of availability of third-party pricing information. For professional services, we have established VSOE because a consistent number of standalone sales of this deliverable have been priced within a reasonably narrow range. For subscription services, we have not established VSOE because, among other factors, the offering is relatively new and our pricing model continues to evolve. Accordingly, we use BESP to determine the relative selling price of MicroStrategy Cloud subscription services.

We determine BESP by reviewing historical transactions and by considering the service s pricing models and objectives that take into account factors such as gross margin, the size and volume of the transactions, perceived pricing sensitivity, and growth strategies. The determination of BESP is made through consultation with, and approval by, our management team, taking into consideration our go-to-market strategy. As our pricing and go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes to the determination of VSOE and BESP.

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Amounts, upon invoicing, are recorded in accounts receivable and either gross deferred revenue or revenue, depending on whether the applicable revenue recognition criteria have been met.

During 2013, 2012, and 2011, we did not generate significant revenues from the MicroStrategy Loyalty Platform or the MicroStrategy Identity Platform.

Allowance for Doubtful Accounts. We have established an allowance for doubtful accounts, which represents our best estimate of probable losses inherent in the accounts receivable balances. We evaluate specific accounts when we become aware that a customer may not be able to meet its financial obligations due to deterioration of its liquidity or financial viability, credit ratings, or bankruptcy. In addition, we periodically adjust this allowance based upon management s review and assessment of the aging of receivables. While actual credit losses have historically been within management s expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates we have in the past. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Property and Equipment. Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows: three years for computer equipment and purchased software, five years for office equipment and automobiles, and ten years for office furniture and our corporate aircraft, which has an estimated salvage value of 70%. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the term of the lease, whichever is shorter. We periodically evaluate the appropriateness of the estimated useful lives and salvage value of all property and equipment. Any change in the estimated useful life or salvage value is treated as a change in estimate and accounted for prospectively in the period of change.

Expenditures for maintenance and repairs are charged to expense as incurred, except for certain costs related to the aircraft. The costs of normal, recurring, or periodic repairs and maintenance activities related to the aircraft are expensed as incurred. The cost of planned major maintenance activities (PMMA) may be treated differently because those activities may involve the acquisition of additional aircraft components or the replacement of existing aircraft components. PMMA are performed periodically based on passage of time and the use of the aircraft. The classification of a maintenance activity as part of PMMA requires judgment and can affect the amount of expense we recognize in any particular period. The cost of each PMMA is expected to be capitalized and amortized over the period until the next scheduled PMMA.

When assets are retired or sold, the capitalized cost and related accumulated depreciation are removed from the property and equipment accounts and any resulting gain or loss is recognized in the results of operations.

Eligible internal-use software development costs are capitalized subsequent to the completion of the preliminary project stage. Such costs include external direct material and service costs, employee payroll, and payroll-related costs. After all substantial testing and deployment is completed and the software is ready for its intended use, capitalization ceases and internal-use software development costs are amortized using the straight-line method over the estimated useful life of the software, generally three years.

We review long-lived assets, including intangible assets, for impairment annually or whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded value of the asset. If an asset is impaired, the asset is written down by the amount by which the carrying value of the asset exceeds the related fair value of the asset.

***Litigation and Contingencies*.** We are subject to various loss contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted.

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We have contingent 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.

Income Taxes. In determining our net deferred tax assets and valuation allowances, management is required to make judgments and estimates related to projections of domestic and foreign profitability, the timing and extent of the utilization of net operating loss carryforwards, changes in applicable tax laws, transfer pricing methods, and prudent and feasible tax planning strategies. However, judgments and estimates related to our projections and assumptions are inherently uncertain; therefore, actual results could differ materially from our projections, which could impact the carrying value of our net deferred tax assets in future periods.

As a global company with subsidiaries in many countries, we are required to calculate and provide for estimated income tax liabilities for each of the tax jurisdictions in which we operate. This process involves estimating current tax liabilities 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 related to the utilization of net operating losses in various jurisdictions, changes in tax rates, 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. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We consider past and future taxable income and ongoing tax planning strategies in assessing the need for a valuation allowance. If we determine that we would not be able to realize all or part of net deferred tax assets in the future, an adjustment to deferred tax assets would reduce income in the period that such determination was made.

Share-based Compensation. We recognize share-based compensation expense associated with stock option awards on a straight-line basis over the award s requisite service period. The share-based compensation expense is based on the fair value of such awards on the date of grant, as estimated using the Black-Scholes option pricing model. See Note 12, Share-based Compensation, to our Consolidated Financial Statements for further information regarding the assumptions used in the Black-Scholes option pricing model. These assumptions are based on management s best judgment, and changes to these assumptions could materially affect the fair value estimates and amount of share-based compensation expense recognized.

Fair Value Measurements. We measure certain assets and liabilities at fair value on a recurring basis. Fair value is defined as the price that is expected to be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We use a three-level hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques. The three levels of the fair value hierarchy are described below:

Level 1: Quoted (unadjusted) prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Inputs other than quoted prices that are either directly or indirectly observable, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Inputs that are generally unobservable, supported by little or no market activity, and typically reflect management s estimates of assumptions that market participants would use in pricing the asset or liability.

The categorization of an asset or liability within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation techniques used by us when measuring fair value maximize the use of observable inputs and minimize the use of unobservable inputs.

We also estimate the fair value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, and accrued compensation and employee benefits. We consider the carrying value of these instruments in our Consolidated Financial Statements to approximate fair value due to their short maturities.

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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. 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 that resulted from such fluctuations. The term international refers to operations outside of the United States and Canada.

	Years Ended December 31,		
	2013	2012	2011
International product licenses and subscription services revenues	$ (1,092)	$ (3,973)	$ 2,320
International product support revenues	(686)	(7,732)	5,411
International other services revenues	(859)	(4,093)	3,127
Cost of product support revenues	(146)	(216)	167
Cost of other services revenues	(109)	(3,898)	2,020
Sales and marketing expenses	(1,039)	(5,649)	5,179
Research and development expenses	627	270	636
General and administrative expenses	(264)	(1,241)	1,086

For example, if there had been no change to foreign currency exchange rates from 2012 to 2013, international product licenses and subscription services revenues would have been $61.9 million rather than $60.8 million for the year ended December 31, 2013. If there had been no change to foreign currency exchange rates from 2012 to 2013, sales and marketing expenses would have been $216.1 million rather than $215.1 million for the year ended December 31, 2013.

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Results of Operations

Comparison of the years ended December 31, 2013, 2012, and 2011

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

	Years Ended December 31, 2013	2012	2011	% Change in 2013	% Change in 2012
Product Licenses and Subscription Services Revenues:					
Product Licenses					
Domestic	$ 87,109	$ 80,508	$ 90,585	8.2%	11.1%
International	60,770	66,836	63,989	9.1%	4.4%
Total product licenses revenues	147,879	147,344	154,574	0.4%	4.7%
Subscription Services	12,246	3,118	76	292.8%	4002.6%
Total product licenses and subscription services revenues	$ 160,125	$ 150,462	$ 154,650	6.4%	2.7%

The following table sets forth a summary, grouped by size, of the number of recognized product licenses transactions for the periods indicated:

	Years Ended December 31, 2013	2012	2011
Product Licenses Transactions with Recognized Licenses Revenue in the Applicable Period:			
More than $1.0 million in licenses revenue recognized	18	19	16
Between $0.5 million and $1.0 million in licenses revenue recognized	32	31	41
Total	50	50	57
Domestic:			
More than $1.0 million in licenses revenue recognized	14	15	11
	21	18	29

Between \$0.5 million and \$1.0 million in licenses revenue recognized			
Total	35	33	40
International:			
More than \$1.0 million in licenses revenue recognized	4	4	5
Between \$0.5 million and \$1.0 million in licenses revenue recognized	11	13	12
Total	15	17	17

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

	Years Ended December 31, 2013	2012	2011	% Change in 2013	% Change in 2012
Product Licenses Revenue Recognized in the Applicable Period:					
More than $1.0 million in licenses revenue recognized	$ 37,585	$ 39,103	$ 26,883	3.9%	45.5%
Between $0.5 million and $1.0 million in licenses revenue recognized	22,089	20,942	26,638	5.5%	21.4%
Less than $0.5 million in licenses revenue recognized	88,205	87,299	101,053	1.0%	13.6%
Total	147,879	147,344	154,574	0.4%	4.7%
Domestic:					
More than $1.0 million in licenses revenue recognized	30,710	25,709	17,536	19.5%	46.6%
Between $0.5 million and $1.0 million in licenses revenue recognized	14,505	12,172	18,193	19.2%	33.1%
Less than $0.5 million in licenses revenue recognized	41,894	42,627	54,856	1.7%	22.3%
Total	87,109	80,508	90,585	8.2%	11.1%
International:					
More than $1.0 million in licenses revenue recognized	6,875	13,394	9,347	48.7%	43.3%
Between $0.5 million and $1.0 million in licenses revenue recognized	7,584	8,770	8,445	13.5%	3.8%
Less than $0.5 million in licenses revenue recognized	46,311	44,672	46,197	3.7%	3.3%
Total	$ 60,770	$ 66,836	$ 63,989	9.1%	4.4%

Product licenses revenues increased $0.5 million during 2013, as compared to the prior year. Product licenses revenues decreased $7.2 million during 2012, as compared to the prior year. For the years ended December 31, 2013, 2012, and 2011, product licenses transactions with more than $0.5 million in recognized revenue represented 40.4%, 40.8%, and 34.6%, respectively, of our product licenses revenues. During 2013, our top three product licenses transactions totaled $14.3 million in recognized revenue, or 9.7% of total product licenses revenues, compared to $13.5 million and $9.5 million, or 9.2% and 6.2% of total product licenses revenues, during 2012 and 2011, respectively.

Domestic product licenses revenues. Domestic product licenses revenues increased $6.6 million during 2013, as compared to the prior year, primarily due to an increase in the average deal size of transactions with more than $1.0 million in recognized revenue and an increase in the number and average deal size of transactions with recognized revenue between $0.5 million and $1.0 million, partially offset by a decrease in the number of transactions with less than $0.5 million in recognized revenue.

Domestic product licenses revenues decreased $10.1 million during 2012, as compared to the prior year, primarily due to a decrease in the number of transactions with recognized revenue between $0.5 million and $1.0 million and a decrease in the average deal size of transactions with less than $0.5 million in recognized revenue, partially offset by an increase in the number and average deal size of transactions with more than $1.0 million in recognized revenue.

International product licenses revenues. International product licenses revenues decreased $6.1 million during 2013, as compared to the prior year, primarily due to a decrease in the average deal size of transactions with more than $1.0 million in recognized revenue and a decrease in the number of transactions with recognized revenue between $0.5 million and $1.0 million, partially offset by an increase in the number of transactions with less than $0.5 million in recognized revenue.

International product licenses revenues increased $2.8 million during 2012, as compared to the prior year, primarily due to an increase in the average deal size of transactions with more than $1.0 million in recognized revenue.

Subscription services revenues. Subscription services revenues are primarily derived from MicroStrategy Cloud services offerings that are recognized on a subscription basis over the service period of the contract. Subscription services revenues increased $9.1 million during 2013, as compared to the prior year, primarily due to an increase in the number of new customers as our MicroStrategy Cloud business has continued to grow. Subscription services revenues increased $3.0 million in 2012, as compared to the prior year, where we only recognized $0.1 million in subscription services revenue as we only began to offer MicroStrategy Cloud services in the second half of 2011.

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

	Years Ended December 31, 2013	2012	2011	% Change in 2013	% Change in 2012
Product Support Revenues:					
Domestic	$ 159,659	$ 149,738	$ 136,162	6.6%	10.0%
International	117,850	112,310	107,385	4.9%	4.6%
Total product support revenues	$ 277,509	$ 262,048	$ 243,547	5.9%	7.6%

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 is generally one year. Product support revenues increased $15.5 million during 2013, as compared to the prior year, primarily due to an increase in the number of product support contracts and an overall increase in renewal pricing on existing product support contracts. Product support revenues increased $18.5 million during 2012, as compared to the prior year, primarily due to an increase in the number of product support contracts and an overall increase in renewal pricing on existing product support contracts.

Other services revenues. The following table sets forth other services revenues (in thousands) and related percentage changes in these revenues for the periods indicated:

	Years Ended December 31, 2013	2012	2011	% Change in 2013	% Change in 2012
Other Services Revenues:					
Consulting					
Domestic	$ 75,193	$ 81,796	$ 67,321	8.1%	21.5%
International	47,037	52,586	53,543	10.6%	1.8%
Total consulting support revenues	122,230	134,382	120,864	9.0%	11.2%
Education	16,024	18,832	18,107	14.9%	4.0%
Total other services revenues	$ 138,254	$ 153,214	$ 138,971	9.8%	10.2%

Consulting revenues. Consulting revenues are derived from helping customers plan and execute the deployment of our software. Consulting revenues decreased during 2013, as compared to the prior year, primarily due to a decrease in billable hours that occurred following the completion of several major client implementations. Consulting revenues increased during 2012, as compared to the prior year, primarily due to an increase in billable hours.

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. These offerings include self-tutorials, custom course development, joint training with customers internal staff, and standard course offerings, with pricing dependent on the specific offering delivered. Education revenues decreased during 2013, as compared to the prior year, primarily due to lower overall contract values, a decrease in private and custom courses delivered, and shifting demand from traditional classroom training to virtual training within our education pass program. Education revenues increased during 2012, as compared to the prior year, primarily due to an increase in new customers requiring custom course development, as well as an increase in purchases of new and renewed perennial education passes by existing customers.

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Costs and Expenses

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

	Years Ended December 31, 2013	2012	2011	% Change in 2013	% Change in 2012
Cost of Revenues:					
Product licenses and subscription services:					
Product licenses	$ 6,606	$ 5,819	$ 8,774	13.5%	33.7%
Subscription services	15,636	6,621	809	136.2%	718.4%
Total product licenses and subscription services	22,242	12,440	9,583	78.8%	29.8%
Product support	16,617	15,532	13,417	7.0%	15.8%
Other services:					
Consulting	93,661	105,720	99,008	11.4%	6.8%
Education	6,049	7,384	8,690	18.1%	15.0%
Total other services	99,710	113,104	107,698	11.8%	5.0%
Total cost of revenues	$ 138,569	$ 141,076	$ 130,698	1.8%	7.9%

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 generally amortized over a useful life of three years.

Cost of product licenses revenues increased $0.8 million during 2013, as compared to the prior year, primarily due to a $1.9 million increase in amortization of capitalized software development costs related to the release of MicroStrategy 9.3 in September 2012 and a $0.5 million increase in amortization of capitalized software development costs related to the release of MicroStrategy 9.4 in October 2013, partially offset by a $1.3 million decrease in amortization of capitalized software development costs related to MicroStrategy 9, which became fully amortized in March 2012, and a $0.4 million decrease in amortization of capitalized software development costs related to MicroStrategy Mobile, which became fully amortized in June 2013. We expect to amortize the remaining balance of our products capitalized software development costs as of December 31, 2013 ratably over the applicable remaining amortization periods as follows:

	Capitalized Software Development Costs, Net, as of December 31, 2013 (in thousands)	Remaining Amortization Period (in months)
MicroStrategy 9.2	$ 315	3
MicroStrategy 9.2.1	379	6

MicroStrategy 9.3		4,617	21
MicroStrategy 9.4		4,984	33
Total capitalized software development costs	$	10,295	

All of the above software now form part of the MicroStrategy Analytics Platform.

Cost of product licenses revenues decreased $3.0 million during 2012, as compared to the prior year, primarily due to a $4.6 million decrease in amortization of capitalized software development costs related to MicroStrategy 9, which became fully amortized in March 2012, partially offset by a $0.8 million increase in amortization of capitalized software development costs related to the release of MicroStrategy 9.3 in September 2012.

Cost of subscription services revenues. Cost of subscription services revenues consists of equipment, facility and other related support costs, and personnel and related overhead costs. Cost of subscription services revenues increased $9.0 million during 2013, as compared to the prior year, due to a $6.6 million increase in equipment depreciation and facility and other related support costs, a $1.7 million increase in compensation and related costs due to an increase in staffing levels, and a $0.7 million increase in consulting and advisory costs. Subscription services headcount increased 160.0% to 39 at December 31, 2013 from 15 at December 31, 2012.

Cost of subscription services revenues increased $5.8 million during 2012, as compared to the prior year, primarily due to a $2.9 million increase in equipment depreciation and facility and other related support costs, a $1.7 million increase in compensation and related costs, and a $1.0 million increase in consulting and advisory costs. Subscription services headcount increased 50.0% to 15 at December 31, 2012 from 10 at December 31, 2011.

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Cost of product support revenues. Cost of product support revenues consists of product support personnel and related overhead costs. Cost of product support revenues increased $1.1 million during 2013, as compared to the prior year, due to a $0.9 million increase in compensation and related costs due to a change in staffing composition and a $0.2 million increase in facility and other related support costs. Product support headcount decreased 9.9% to 164 at December 31, 2013 from 182 at December 31, 2012.

Cost of product support revenues increased $2.1 million during 2012, as compared to the prior year, primarily due to a $1.6 million increase in compensation and related costs associated with an increase in staffing levels to support an increased customer base. Product support headcount increased 14.5% to 182 at December 31, 2012 from 159 at December 31, 2011.

Cost of consulting revenues. Cost of consulting revenues consists of personnel and related overhead costs. Cost of consulting revenues decreased $12.1 million during 2013, as compared to the prior year, due to an $11.0 million decrease in compensation and related costs due to a decrease in staffing levels and a $1.3 million decrease in travel and entertainment expenditures, partially offset by a $0.1 million increase in facility and other related support costs and a $0.1 million increase in subcontractor costs. Consulting headcount decreased 18.8% to 669 at December 31, 2013 from 824 at December 31, 2012.

Cost of consulting revenues increased $6.7 million during 2012, as compared to the prior year, primarily due to a $6.5 million increase in compensation and related costs, a $0.7 million increase in travel and entertainment expenditures, and a $0.4 million increase in facility and other related support costs, partially offset by a $0.8 million decrease in subcontractor costs. Consulting headcount decreased 1.4% to 824 at December 31, 2012 from 836 at December 31, 2011.

Cost of education revenues. Cost of education revenues consists of personnel and related overhead costs. Cost of education revenues decreased $1.3 million during 2013, as compared to the prior year, primarily due to a $0.8 million decrease in compensation and related costs associated with a decrease in staffing levels, a $0.3 million decrease in travel and entertainment expenditures, and a $0.3 million decrease in facility and other related support costs. Education headcount decreased 25.0% to 36 at December 31, 2013 from 48 at December 31, 2012.

Cost of education revenues decreased $1.3 million during 2012, as compared to the prior year, primarily due to a $0.7 million decrease in compensation and related costs associated with a decrease in staffing levels, a $0.3 million decrease in travel and entertainment expenditures, and a $0.2 million decrease in subcontractor costs. Education headcount decreased 11.1% to 48 at December 31, 2012 from 54 at December 31, 2011.

Sales and marketing expenses. Sales and marketing expenses consists of personnel costs, commissions, office facilities, travel, advertising, public relations programs, and promotional events, such as trade shows, seminars, and technical conferences. The following table sets forth sales and marketing expenses (in thousands) and related percentage changes in these expenses for the periods indicated:

	Years Ended December 31,			% Change	% Change
	2013	**2012**	**2011**	**in 2013**	**in 2012**
Sales and marketing expenses	$ 215,089	$ 209,975	$ 231,504	2.4%	9.3%

Sales and marketing expenses increased $5.1 million during 2013, as compared to the prior year, due to a $7.4 million increase in compensation, variable compensation, and related costs, a $0.9 million increase in facility and other related support costs, a $0.4 million increase in consulting and advisory costs, and a $0.4 million increase in recruiting costs, partially offset by a $2.7 million decrease in advertising costs and a $1.3 million decrease in travel and entertainment expenditures. Sales and marketing headcount increased 13.8% to 825 at December 31, 2013 from 725 at December 31, 2012.

Sales and marketing expenses decreased $21.5 million during 2012, as compared to the prior year, primarily due to a $19.4 million decrease in compensation and related costs due to a decrease in staffing levels, a $1.5 million decrease in travel and entertainment expenditures, and a $0.8 million decrease in consulting and advisory costs. Sales and marketing headcount decreased 11.3% to 725 at December 31, 2012 from 817 at December 31, 2011.

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General and administrative expenses. General and administrative expenses consists of personnel and related overhead costs, and other costs of our executive, finance, human resources, information systems, and administrative departments, as well as associated third-party consulting, legal, and other professional fees. The following table sets forth general and administrative expenses (in thousands) and related percentage changes in these expenses for the periods indicated:

	Years Ended December 31,			% Change	% Change
	2013	**2012**	**2011**	**in 2013**	**in 2012**
General and administrative expenses	$ 104,734	$ 93,384	$ 86,237	12.2%	8.3%

General and administrative expenses increased $11.4 million during 2013, as compared to the prior year, primarily due to an $11.7 million increase in compensation and related costs due to an increase in executive bonus accruals and an increase in staffing levels, a $1.7 million increase in share-based compensation expense related to the grant of stock options under the 2013 Plan, a $1.5 million increase in facility and other related support costs, a $0.6 million increase in travel and entertainment expenditures, a $0.6 million increase in non-income taxes, and a $0.4 million decrease in the capitalization of internally developed software, partially offset by a $3.9 million decrease in legal, consulting, and other advisory costs and a $1.5 million decrease in other operating costs of our owned corporate aircraft. General and administrative headcount increased 10.3% to 472 at December 31, 2013 from 428 at December 31, 2012. We do not expect to increase general and administrative headcount significantly in the near term.

As a result of the grant of stock options under the 2013 Plan in 2013, we expect that share-based compensation expense, a portion of which is recognized as general and administrative expense, will continue to be a significant recurring expense over the next four years. We estimate that such share-based compensation expense will be recognized as general and administrative expense at a rate of approximately $5.4 million per year over the next four years. See Overview and Note 12, Share-based Compensation, to the Consolidated Financial Statements for further information regarding the 2013 Plan and related share-based compensation expense.

General and administrative expenses increased $7.1 million during 2012, as compared to the prior year, primarily due to an $8.3 million increase in legal, consulting, and other advisory costs, a $3.2 million increase in compensation and related costs associated with increased staffing levels, a $0.8 million increase in facility and other related support costs, and a $0.2 million increase in other operating costs of our owned corporate aircraft and the leased fractional interest that we held in a corporate aircraft in 2012, partially offset by a $5.3 million decrease in recruiting costs. General and administrative headcount increased 5.9% to 428 at December 31, 2012 from 404 at December 31, 2011.

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 related percentage changes in these expenses for the periods indicated:

	Years Ended December 31,			% Change	% Change
	2013	**2012**	**2011**	**in 2013**	**in 2012**
Gross research and development expenses before capitalized software development costs	$ 103,493	$ 96,338	$ 73,770	7.4%	30.6%
Capitalized software development costs	(5,437)	(8,148)	(5,907)	33.3%	37.9%

Total research and development expenses	$ 98,056	$ 88,190	$ 67,863	11.2%	30.0%
Amortization of capitalized software development costs included in cost of product licenses revenues	$ 5,502	$ 4,819	$ 7,934	14.2%	39.3%

Research and development expenses, before capitalization of software development costs, increased $7.2 million, or 7.4%, during 2013, as compared to the prior year, primarily due to a $9.5 million increase in compensation and related costs due to an increase in

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staffing levels, a $0.3 million increase in share-based compensation expense related to the grant of stock options under the 2013 Plan, and a $0.3 million increase in recruiting costs, partially offset by a $1.9 million decrease in facility and other related support costs that was primarily the result of a reclassification of such costs to cost of subscription services and a $1.3 million decrease in consulting and advisory costs. During 2013, we capitalized $5.4 million in costs associated with the development of our MicroStrategy 9.4 software, as compared to $8.1 million in software development costs associated with the development of our MicroStrategy 9.3 software that were capitalized in the prior year. Research and development headcount increased 7.3% to 953 at December 31, 2013 from 888 at December 31, 2012.

As a result of the grant of stock options under the 2013 Plan in 2013, we expect that share-based compensation expense, a portion of which is recognized as research and development expense, will continue to be a significant recurring expense over the next four years. We estimate that such share-based compensation expense will be recognized as research and development expense at a rate of approximately $1.1 million per year over the next four years. See Overview and Note 12, Share-based Compensation, to the Consolidated Financial Statements for further information regarding the 2013 Plan and related share-based compensation expense.

Research and development expenses, before capitalization of software development costs, increased $22.6 million, or 30.6%, during 2012, as compared to the prior year, primarily due to a $14.4 million increase in compensation and related costs due to an increase in staffing levels and a $6.6 million increase in facility and other related support costs. During 2012, we capitalized $8.1 million in costs associated with the development of our MicroStrategy 9.3 software, as compared to $5.9 million in software development costs associated with the development of our MicroStrategy 9.2 and 9.2.1 software that were capitalized in the prior year. Research and development headcount increased 24.5% to 888 at December 31, 2012 from 713 at December 31, 2011.

During 2013, our research and development personnel were focused on the following: 69.8% on the MicroStrategy Analytics Platform, MicroStrategy Mobile, MicroStrategy Cloud, and internal information technology initiatives and 30.2% on other research and development, including the MicroStrategy Loyalty Platform and the MicroStrategy Identity Platform.

During 2012, our research and development personnel were focused on the following: 67.7% on MicroStrategy 9.2 (which now forms part of the MicroStrategy Analytics Platform), MicroStrategy Mobile, MicroStrategy Cloud, and internal information technology initiatives and 32.3% on other research and development, including the MicroStrategy Loyalty Platform and the MicroStrategy Identity Platform.

Other (Expense) Income, Net

Other (expense) income, net is comprised primarily of proceeds from litigation settlements, realized gains and losses on our foreign currency forward contracts, and foreign currency transaction gains and losses. During 2013, other expense, net, of $3.2 million was comprised primarily of $3.3 million in foreign currency transaction net losses, arising mainly from the revaluation of U.S. dollar denominated cash balances held at international locations and $0.6 million in realized losses from the settlement of certain foreign currency forward contracts, partially offset by $0.4 million in proceeds received from litigation settlements. During 2012, other expense, net, of $1.0 million was comprised primarily of $2.0 million in foreign currency transaction net losses, arising mainly from the revaluation of U.S. dollar denominated cash balances held at international locations. During 2011, other income, net, of $0.8 million was comprised primarily of $0.4 million in foreign currency transaction net gains.

Provision for Income Taxes

During 2013, we recorded a benefit from income taxes from continuing operations of $9.8 million that resulted in an effective tax rate from continuing operations of negative 58.5%, as compared to an effective tax rate of 30.2% that resulted in a provision for income taxes from continuing operations of $9.7 million during 2012. The change in the Company s effective tax rate from continuing operations in 2013, as compared to the prior year, was primarily due to the release of liabilities for unrecognized tax benefits as the statute of limitations on certain previously filed tax returns expired in the third quarter of 2013, a favorable settlement of a German tax examination in the second quarter of 2013, and the 2012 U.S. research and development tax credit, which was retroactively reinstated by the American Taxpayer Relief Act of 2012 signed into law on January 2, 2013 and recorded as a tax benefit in the first quarter of 2013.

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As of December 31, 2013, we had foreign net operating loss (NOL) carryforwards of $4.4 million. All U.S. NOLs have been utilized in connection with the taxable gain arising from the sale of Angel.com. In addition, the Company was able to recognize and utilize the NOLs arising directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting that was generated primarily in the prior years. As a result of our utilization of NOLs, stockholders equity increased by $23.6 million during 2013. As of December 31, 2013, foreign NOL carryforwards, other temporary differences and carryforwards, and credits resulted in deferred tax assets, net of valuation allowances and deferred tax liabilities, of $17.1 million. As of December 31, 2013, we had a valuation allowance of $0.1 million primarily related to certain foreign NOL carryforward tax assets that, in our present estimation, more likely than not will not be realized.

Except as discussed below, we intend to indefinitely reinvest our undistributed earnings of certain foreign subsidiaries. Therefore, the annualized effective tax rate applied to our pre-tax income from continuing operations 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 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. We repatriated Subpart F deemed dividends of $1.0 million and $2.5 million in 2013 and 2012, respectively, with no additional tax. No Subpart F income was repatriated in 2011. As of December 31, 2013 and December 31, 2012, the amount of cash and cash equivalents and short-term investments, excluding those held for sale, held by U.S. entities was $160.5 million and $39.3 million, respectively, and by non-U.S. entities was $196.9 million and $183.8 million, respectively. If the cash and cash equivalents and short-term investments held by non-U.S. entities were to be repatriated to the U.S., we would generate U.S. taxable income to the extent of our undistributed foreign earnings, which amounted to $192.7 million at December 31, 2013. Although the tax impact of repatriating these earnings is difficult to determine, we would not expect the maximum effective tax rate that would be applicable to such repatriation to exceed the U.S. statutory rate of 35.0%, after considering applicable foreign tax credits.

During 2011, we recorded a provision for income taxes from continuing operations of $3.4 million, resulting in an effective tax rate of 13.5%. Our effective tax rate increased during 2012, as compared to 2011, primarily due to stronger financial results in the U.S., where the tax rate is higher than in the jurisdictions of certain of our foreign subsidiaries. In addition, during the twelve months ended December 31, 2011, the Company recorded significant tax benefits resulting from a favorable settlement with the U.K. tax authority and the release of valuation allowances in foreign jurisdictions, whereas no such benefits were recorded during the twelve months ended December 31, 2012.

Discontinued Operations

On February 25, 2013, we committed to a plan to sell our Angel.com business. We have reported this business as discontinued on our Consolidated Statements of Operations because we have no continuing involvement with or cash flows from this business following its divestiture.

On March 15, 2013, we completed the sale of our equity interest in Angel.com and received consideration of approximately $111.2 million, resulting in a net cash inflow of $100.7 million after $10.5 million in transaction costs. The sale resulted in a gain of $57.4 million, net of tax. We reclassified revenues and expenses associated with the Angel.com business to discontinued operations for all periods presented. 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) and percentage changes for the periods indicated:

	Year Ended December 31, 2013	2012	2011	% Change in 2013	% Change in 2012
Gain on sale of discontinued operations, net of tax	$ 57,377	$ 0	$ 0	n/a	n/a
Loss from discontinued operations, net of tax	$ 595	$ 1,927	$ 3,867	69.1%	50.2%

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Deferred Revenue and Advance Payments

Deferred revenue and advance payments represent subscription services, 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:

	December 31, 2013	December 31, 2012	December 31, 2011
Current:			
Deferred product licenses revenue	$ 14,538	$ 12,252	$ 14,876
Deferred subscription services revenue	10,923	7,087	423
Deferred product support revenue	167,771	145,343	143,165
Deferred other services revenue	17,056	15,132	18,831
Gross current deferred revenue and advance payments	210,288	179,814	177,295
Less: unpaid deferred revenue	(96,632)	(78,565)	(74,630)
Net current deferred revenue and advance payments	$ 113,656	$ 101,249	$ 102,665
Non-current:			
Deferred product licenses revenue	$ 4,401	$ 3,280	$ 3,528
Deferred subscription services revenue	1,161	1,028	725
Deferred product support revenue	5,877	8,205	9,453
Deferred other services revenue	1,175	852	235
Gross non-current deferred revenue and advance payments	12,614	13,365	13,941
Less: unpaid deferred revenue	(3,644)	(4,542)	(3,100)
Net non-current deferred revenue and advance payments	$ 8,970	$ 8,823	$ 10,841

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

Total gross deferred revenue and advance payments increased $29.7 million in 2013, as compared to the prior year, primarily due to more timely renewals of product support at year-end and increases in the number of product licenses, product support, subscription services, and other services contracts. Total gross deferred revenue and advance payments increased $1.9 million in 2012, as compared to the prior year, primarily due to an increase in the number of product support and subscription services contracts, partially offset by the recognition of previously deferred product licenses and other services revenues.

We expect to recognize approximately $210.3 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 December 31, 2013, we had entered into certain additional agreements that include future minimum commitments by our customers to purchase products, subscription services, product support, or other services through 2018 totaling approximately $119.7 million. As of December 31, 2012, the future minimum commitments by our customers to purchase products, subscription services, product support, or other services through 2017 totaled approximately $110.4 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.

Liquidity and Capital Resources

Liquidity. Our principal sources of liquidity are cash and cash equivalents and on-going collection of our accounts receivable. Cash and cash equivalents include holdings in bank demand deposits and U.S. Treasury securities. We also periodically invest a portion of our excess cash in short-term investments with stated maturity dates between three months and one year from the purchase date.

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As of December 31, 2013 and December 31, 2012, the amount of cash and cash equivalents and short-term investments, excluding those held-for-sale, held by U.S. entities was $160.5 million and $39.3 million, respectively, and by non-U.S. entities was $196.9 million and $183.8 million, respectively. We earn a significant amount of our revenues outside the U.S. and, except for Subpart F deemed dividends, we intend to indefinitely reinvest undistributed earnings of certain non-U.S. entities. We do not anticipate needing to repatriate the cash or cash equivalents held by non-U.S. entities to the U.S. to finance our U.S. operations. However, if we were to elect to repatriate these amounts, we would generate U.S. taxable income to the extent of our undistributed foreign earnings, which amounted to $192.7 million at December 31, 2013. Although the tax impact of repatriating these earnings is difficult to determine and our effective tax rate could increase as a result of any such repatriation, we would not expect the maximum effective tax rate that would be applicable to such repatriation to exceed the U.S. statutory rate of 35.0%, after considering applicable foreign tax credits.

On March 15, 2013, we completed the sale of our equity interest in Angel.com to Genesys Telecommunications Laboratories, Inc. for consideration of approximately $111.2 million, resulting in a net cash inflow of $100.7 million after $10.5 million in transaction costs. The sale resulted in a gain of $57.4 million, net of tax. The net proceeds from the sale of Angel.com helped strengthen our balance sheet and will be used for general corporate purposes.

We believe that existing cash and cash equivalents and short-term investments held by us and cash and cash equivalents anticipated to be generated by us are sufficient to meet working capital requirements, anticipated capital expenditures, and contractual obligations for at least the next 12 months.

The following table sets forth a summary of our cash flows from continuing operations (in thousands) and related percentage changes for the periods indicated:

	December 31,			% Change	% Change
	2013	**2012**	**2011**	**in 2013**	**in 2012**
Net cash provided by operating activities from continuing operations	$ 30,598	$ 52,163	$ 67,028	41.3%	22.2%
Net cash used in investing activities from continuing operations	$ (154,066)	$ (34,338)	$ (32,213)	348.7%	6.6%
Net cash provided by financing activities from continuing operations	$ 21,637	$ 9,759	$ 2,463	121.7%	296.2%

Net Cash Provided by Operating Activities from Continuing Operations. The primary source of our cash provided by operating activities from continuing operations is cash collections of our accounts receivable from customers following the sales and renewals of our software licenses, technical software support, software updates and upgrades, as well as consulting, education, and subscription services. Our primary uses of cash in operating activities from continuing operations are for personnel related expenditures for software development, personnel related expenditures for providing consulting, education, and subscription services, and for sales and marketing costs, general and administrative costs, and income taxes.

Net cash provided by operating activities from continuing operations was $30.6 million, $52.2 million, and $67.0 million during 2013, 2012, and 2011, respectively. The decrease in net cash provided by operating activities during 2013, as compared to the prior year, was primarily due to a $37.1 million decrease from changes in non-cash items, partially offset by an $11.5 million change in operating assets and liabilities and a $4.1 million increase in income from continuing operations, net of tax. The decrease in net cash provided by operating activities from continuing operations during 2012, as compared to the prior year, was primarily due to a $30.4 million change in operating assets and liabilities, partially offset by a $14.9 million increase from changes in non-cash items and a $0.7 million increase in income from continuing operations, net of tax. Non-cash items primarily consist of depreciation and amortization, bad debt expense, deferred taxes, release of liabilities for unrecognized tax benefits, share-based compensation expense, excess tax benefits from share-based compensation arrangements, and a gain on the sale of an investment.

Net Cash Used in Investing Activities from Continuing Operations. The changes in net cash used in investing activities from continuing operations primarily relate to purchases and redemptions of short-term investments, expenditures on property, plant and equipment, capitalized software development costs, and receipts of insurance proceeds related to our owned corporate aircraft. Net cash used in investing activities was $154.1 million, $34.3 million, and $32.2 million during 2013, 2012, and 2011, respectively. The increase in net cash used in investing activities from continuing operations during 2013, as compared to the prior year, was due to a

$224.1 million increase in purchases of short-term investments, a $3.2 million decrease in the amount of insurance proceeds received related to our owned corporate aircraft, which was damaged in the first quarter of 2010 and subsequently repaired and returned to service in the second quarter of 2012, and a $0.7 million increase in restricted cash, partially offset by an $87.0 million increase in proceeds from the redemption of U.S. Treasury securities, an $18.6 million decrease in purchases of property and equipment, comprised primarily of decreases in expenditures for leasehold improvements, internally developed software, and furniture and fixtures, and a $2.7 million decrease in capitalized software development costs. The increase in net cash used in investing activities from continuing operations during 2012, as compared to the prior year, was primarily due to a $3.9 million decrease in the amount of insurance proceeds received in connection with our owned corporate aircraft, the fact that we received $3.4 million of proceeds from the sale of an investment in the prior year, and a $2.2 million increase in capitalized software development costs, partially offset by a $7.1 million decrease in purchases of property and equipment, comprised primarily of decreases in expenditures for computer equipment, repairs to our owned corporate aircraft, and leasehold improvements.

Net Cash Provided by Financing Activities from Continuing Operations. The changes in net cash provided by financing activities from continuing operations primarily relate to the exercise of employee stock options and payments on capital lease and other financing arrangements. Net cash provided by financing activities from continuing operations was $21.6 million, $9.8 million, and $2.5 million during 2013, 2012, and 2011, respectively. The increase in net cash provided by financing activities from continuing operations during 2013, as compared to the prior year, was due to a $23.6 million increase in excess tax benefits, generated primarily from stock option exercises in prior years, that were recognized in 2013 due to the taxable gain arising from the sale of Angel.com, partially offset by a $9.9 million decrease in proceeds from the exercise of employee stock options and a $1.8 million increase in payments on capital lease obligations and other financing arrangements. The increase in net cash provided by financing activities from continuing operations during 2012, as compared to the prior year, was due to a $7.8 million increase in proceeds from the exercise of employee stock options, partially offset by a $0.5 million increase in payments on capital lease obligations and other financing arrangements.

Share Repurchases. Our Board of Directors has authorized us to repurchase up to an aggregate of $800.0 million of our class A common stock from time to time on the open market through April 29, 2018 (the 2005 Share Repurchase Program), 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 management based on its evaluation of market conditions and other factors. The 2005 Share Repurchase Program may be funded using working capital, as well as proceeds from any other funding arrangements that we may enter into in the future. During the years ended December 31, 2013, 2012, and 2011, we did not repurchase any shares of our class A common stock pursuant to the 2005 Share Repurchase Program.

Contractual Obligations. As disclosed in Note 10, Commitments and Contingencies, to the Consolidated Financial Statements, we lease office space and computer and other equipment under operating lease agreements. We also lease certain computer and other equipment under capital lease agreements and license certain software under other financing arrangements. Under the lease agreements, in addition to base rent, we are generally responsible for certain taxes, utilities and maintenance costs, and other fees; and several leases include options for renewal or purchase. The following table shows future minimum rent payments under noncancellable operating and capital leases and agreements with initial terms of greater than one year, net of total future minimum rent payments to be received under noncancellable sublease agreements (in thousands), based on the expected due dates of the various installments as of December 31, 2013:

Payments due by period ended December 31,

	Total	2014	2015-2016	2017-2018	Thereafter
Contractual Obligations:					
Operating leases	$ 126,240	$ 25,736	$ 38,831	$ 30,320	$ 31,353
Capital leases and other financing arrangements	3,977	2,358	1,619	0	0
Total	$ 130,217	$ 28,094	$ 40,450	$ 30,320	$ 31,353

Unrecognized Tax Benefits. As of December 31, 2013, we had $2.6 million of total gross unrecognized tax benefits, including interest accrued. The unrecognized tax benefits are recorded in other long-term liabilities. 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 during 2014.

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Off-Balance Sheet Arrangements. As of December 31, 2013, 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.

Recent Accounting Standards

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02, *Comprehensive Income (Topic 220)* (ASU 2013-02), which established the effective date for the requirement to present components of reclassifications out of accumulated other comprehensive income either in a single note or parenthetically on the face of the financial statements. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012. The adoption of this guidance did not have a material effect on our consolidated financial position, results of operations, or cash flows.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, *Income Taxes (Topic 740)* (ASU 2013-11), which requires the financial statement presentation of an unrecognized tax benefit in a particular jurisdiction, or a portion thereof, as a reduction to a deferred tax asset for a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward, unless the uncertain tax position is not available to reduce, or would not be used to reduce, the NOL or carryforward under the tax law in the same jurisdiction; otherwise, the unrecognized tax benefit should be presented as a gross liability and should not be combined with a deferred tax asset. ASU 2013-11 is effective for interim and annual periods beginning after December 15, 2013. We are currently evaluating the impact of this guidance on our consolidated financial position, results of operations, and cash flows.

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Item 7A. 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 instruments are subject to interest rate risk and may fall in value if interest rates increase. As of December 31, 2013, we held approximately $137.2 million of investments in U.S. Treasury securities with stated maturity dates between three months and one year from the purchase date, and we intend to hold these investments until maturity.

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 revenues accounted for 40.4%, 42.3%, and 43.3% of our total revenues from continuing operations for the years ended December 31, 2013, 2012, and 2011, 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.

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. The impact of foreign currency exchange rate fluctuations on current and comparable periods is described in Item 7, 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. In addition, beginning in the second quarter of 2013, we entered into foreign currency forward contracts to hedge certain risks associated with foreign currency exchange exposure. We manage the use of foreign exchange derivative instruments centrally, and we do not hold or enter into derivative financial instruments for speculative trading purposes. See Note 4, Fair Value Measurements, to the Consolidated Financial Statements for further information on foreign currency forward contracts held. We cannot be sure that our 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 December 31, 2013 and 2012, a 10% adverse change in foreign currency exchange rates versus the U.S. dollar, before applying the impact of our foreign currency forward contracts, would have decreased our aggregate reported cash and cash equivalents and short-term investments, excluding those held-for-sale, by 0.4% and 0.7%, respectively. The decrease in exposure to an adverse change in foreign currency rates as of December 31, 2013 was primarily due to an increase in domestic cash resulting from the Angel.com sale and a decrease of cash balances in our non-U.S. dollar based bank accounts as compared to the prior year. Our foreign currency forward contracts further decrease the negative impact that a 10% adverse change in foreign currency exchange rates would have on our aggregate reported cash and cash equivalents and short-term investments from 0.4% to 0.1% as of December 31, 2013. If average exchange rates during the year ended December 31, 2013 had changed unfavorably by 10%, our revenues for the year ended December 31, 2013 would have decreased by 3.7%. During the year ended December 31, 2013, our revenues decreased 0.5% as a result of a 0.6% unfavorable change in weighted average exchange rates, as compared to the prior year.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements, together with the related notes and the associated Reports of Independent Registered Public Accounting Firms, are set forth on the pages indicated in Item 15.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 the end of the period covered by this annual report. 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 the end of the period covered by this annual report, 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.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company s principal executive and principal financial officers and effected by the Company s board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Such internal control includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, our management used the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), published in 1992. Based on its assessment, our management has determined that, as of December 31, 2013, our internal control over financial reporting is effective based on those criteria.

KPMG LLP has issued an attestation report on our internal control over financial reporting. This report is included in the Reports of Independent Registered Public Accounting Firms in Item 15.

Changes in Internal Control Over Financial Reporting

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 December 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the information provided under the headings Executive Officers of the Company, Election of Directors Nominees, and Corporate Governance and the Board of Directors and its Committees in our definitive proxy statement to be filed with the Securities and Exchange Commission not later than 120 days after the fiscal year ended December 31, 2013 (the 2014 Proxy Statement).

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the information provided under the headings Executive and Director Compensation, Compensation Committee Report, and Corporate Governance and the Board of Directors and its Committees Compensation Committee in the 2014 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the information provided under the headings Security Ownership of Certain Beneficial Owners and Management and Executive and Director Compensation in the 2014 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the information provided under the heading Corporate Governance and the Board of Directors and its Committees in the 2014 Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference to the information provided under the heading Independent Registered Public Accounting Firm Fees and Services in the 2014 Proxy Statement.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements

(b) Exhibits

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

(c) Financial Statement Schedule

The following financial statement schedule is filed herewith:

Schedule II Valuation and Qualifying Accounts

All other items included in an Annual Report on Form 10-K are omitted because they are not applicable or the answers thereto are none.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

MicroStrategy Incorporated:

We have audited MicroStrategy Incorporated s (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company and subsidiaries as of December 31, 2013, and the related consolidated statements of operations, comprehensive income, stockholders equity, and cash flows for year then ended, and our report dated February 12, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

McLean, Virginia

February 12, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

MicroStrategy Incorporated:

We have audited the accompanying consolidated balance sheet of MicroStrategy Incorporated and subsidiaries (the Company) as of December 31, 2013, and the related consolidated statements of operations, comprehensive income, stockholders equity, and cash flows for the year then ended. In connection with our audit of the consolidated financial statements, we have also audited the financial statement schedule listed in the index appearing under Item 15(a)(2). These consolidated financial statements and the financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 12, 2014, expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

McLean, Virginia

February 12, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

MicroStrategy Incorporated

We have audited the accompanying consolidated balance sheet of MicroStrategy Incorporated (a Delaware corporation) and subsidiaries (the Company) as of December 31, 2012, and the related consolidated statements of operations, comprehensive income, stockholders equity, and cash flows for each of the two years in the period ended December 31, 2012. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MicroStrategy Incorporated and subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Grant Thornton LLP

McLean, Virginia

February 13, 2013 (except Note 16, as to which the date is February 12, 2014)

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MICROSTRATEGY INCORPORATED

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 220,171	$ 223,043
Restricted cash	583	50
Short-term investments	137,198	36
Accounts receivable, net	86,181	89,038
Prepaid expenses and other current assets	14,260	12,689
Deferred tax assets, net	21,555	26,616
Assets held-for-sale	0	10,571
Total current assets	479,948	362,043
Property and equipment, net	85,445	96,751
Capitalized software development costs, net	10,295	10,360
Deposits and other assets	6,622	5,120
Deferred tax assets, net	3,204	3,664
Total assets	$ 585,514	$ 477,938
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 39,946	$ 40,905
Accrued compensation and employee benefits	79,495	71,789
Deferred revenue and advance payments	113,656	101,249
Deferred tax liabilities	422	523
Liabilities held-for-sale	0	4,689
Total current liabilities	233,519	219,155
Deferred revenue and advance payments	8,970	8,823
Other long-term liabilities	25,511	43,418
Deferred tax liabilities	7,188	6,231
Total liabilities	275,188	277,627
Commitments and Contingencies		
Stockholders Equity		

Preferred stock undesignated, $0.001 par value; 5,000 shares authorized; no shares issued or outstanding		0		0
Class A common stock, $0.001 par value; 330,000 shares authorized; 15,478 shares issued and 9,073 shares outstanding, and 15,462 shares issued and 9,057 shares outstanding, respectively		15		15
Class B convertible common stock, $0.001 par value; 165,000 shares authorized; 2,227 shares issued and outstanding, and 2,227 shares issued and outstanding, respectively		2		2
Additional paid-in capital		494,086		468,087
Treasury stock, at cost; 6,405 shares		(475,184)		(475,184)
Accumulated other comprehensive loss		(831)		(1,515)
Retained earnings		292,238		208,906
Total stockholders equity		310,326		200,311
Total liabilities and stockholders equity	$	585,514	$	477,938

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)

	Years Ended December 31,		
	2013	**2012**	**2011**
Revenues:			
Product licenses and subscription services	$ 160,125	$ 150,462	$ 154,650
Product support	277,509	262,048	243,547
Other services	138,254	153,214	138,971
Total revenues	575,888	565,724	537,168
Cost of revenues:			
Product licenses and subscription services	22,242	12,440	9,583
Product support	16,617	15,532	13,417
Other services	99,710	113,104	107,698
Total cost of revenues	138,569	141,076	130,698
Gross profit	437,319	424,648	406,470
Operating expenses:			
Sales and marketing	215,089	209,975	231,504
Research and development	98,056	88,190	67,863
General and administrative	104,734	93,384	86,237
Total operating expenses	417,879	391,549	385,604
Income from continuing operations	19,440	33,099	20,866
Interest income, net	497	143	199
Gain on sale of investment	0	0	3,371
Other (expense) income, net	(3,186)	(1,035)	764
Income from continuing operations before income taxes	16,751	32,207	25,200
(Benefit from) provision for income taxes	(9,799)	9,734	3,393
Income from continuing operations, net of tax	26,550	22,473	21,807
Discontinued operations:			
	57,377	0	0

Gain from sale of discontinued operations, net of tax provision ($37,548, $0, and $0, respectively)			
Loss from discontinued operations, net of tax benefit ($391, $1,049, and $2,033, respectively)	(595)	(1,927)	(3,867)
Discontinued operations, net of tax	56,782	(1,927)	(3,867)
Net income	$ 83,332	$ 20,546	$ 17,940
Basic earnings (loss) per share (1):			
From continuing operations	$ 2.35	$ 2.05	$ 2.03
From discontinued operations	5.02	(0.18)	(0.36)
Basic earnings per share	$ 7.37	$ 1.87	$ 1.67
Weighted average shares outstanding used in computing basic earnings (loss) per share	11,300	10,995	10,719
Diluted earnings (loss) per share (1):			
From continuing operations	$ 2.35	$ 2.01	$ 1.97
From discontinued operations	5.02	(0.17)	(0.35)
Diluted earnings per share	$ 7.37	$ 1.84	$ 1.62
Weighted average shares outstanding used in computing diluted earnings (loss) per share	11,301	11,174	11,066

(1) Basic and fully diluted earnings (loss) 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 COMPREHENSIVE INCOME

(in thousands)

	Years Ended December 31,		
	2013	**2012**	**2011**
Net income	$ 83,332	$ 20,546	$ 17,940
Other comprehensive income (loss), net of applicable taxes:			
Foreign currency translation adjustment	684	535	(581)
Unrealized gain (loss) on short-term investments	0	2	(16)
Total other comprehensive income (loss)	684	537	(597)
Comprehensive income	$ 84,016	$ 21,083	$ 17,343

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

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MICROSTRATEGY INCORPORATED

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)

		Class A Common Stock		Class B Convertible Common Stock		Additional Paid-in	Treasury Stock		Accumulated Other Comprehensive Income	Retained
	Total	**Shares**	**Amount**	**Shares**	**Amount**	**Capital**	**Shares**	**Amount**	**(Loss)**	**Earnings**
Balance at January 1, 2011	$ 149,172	14,351	$ 14	2,694	$ 3	$ 455,374	(6,405)	$ (475,184)	$ (1,455)	$ 170,420
Net income	17,940	0	0	0	0	0	0	0	0	17,940
Other comprehensive loss	(597)	0	0	0	0	0	0	0	(597)	0
Conversion of class B to class A common stock	0	316	1	(316)	(1)	0	0	0	0	0
Issuance of class A common stock under stock option plans	2,463	143	0	0	0	2,463	0	0	0	0
Balance at December 31, 2011	$ 168,978	14,810	$ 15	2,378	$ 2	$ 457,837	(6,405)	$ (475,184)	$ (2,052)	$ 188,360
Net income	20,546	0	0	0	0	0	0	0	0	20,546
Other comprehensive income	537	0	0	0	0	0	0	0	537	0
Conversion of class B to class A common stock	0	151	0	(151)	0	0	0	0	0	0
Issuance of class A common stock under stock option plans	10,250	501	0	0	0	10,250	0	0	0	0

Balance at December 31, 2012	$ 200,311	15,462	$ 15	2,227	$ 2	$ 468,087	(6,405)	$ (475,184)	$ (1,515)	$ 208,906
Net income	83,332	0	0	0	0	0	0	0	0	83,332
Other comprehensive income	684	0	0	0	0	0	0	0	684	0
Issuance of class A common stock under stock option plans	341	16	0	0	0	341	0	0	0	0
Tax effect of stock option exercises	23,580	0	0	0	0	23,580	0	0	0	0
Share-based compensation expense	2,078	0	0	0	0	2,078	0	0	0	0
Balance at December 31, 2013	$ 310,326	15,478	$ 15	2,227	$ 2	$ 494,086	(6,405)	$ (475,184)	$ (831)	$ 292,238

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)

	Years Ended December 31,		
	2013	**2012**	**2011**
Operating activities:			
Net income	$ 83,332	$ 20,546	$ 17,940
Plus: (Income) loss from discontinued operations, net of tax	(56,782)	1,927	3,867
Income from continuing operations, net of tax	26,550	22,473	21,807
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	26,399	22,454	17,271
Bad debt expense	2,281	2,361	1,449
Deferred taxes	(3,319)	1,967	(3,371)
Release of liabilities for unrecognized tax benefits	(14,643)	(472)	(552)
Share-based compensation expense	2,078	0	0
Excess tax benefits from share-based compensation arrangements	(23,580)	0	0
Gain on sale of investment	0	0	(3,371)
Changes in operating assets and liabilities:			
Accounts receivable	676	526	(14,326)
Prepaid expenses and other current assets	(565)	305	7,232
Deposits and other assets	794	175	95
Accounts payable and accrued expenses	(4,786)	3,763	5,022
Accrued compensation and employee benefits	8,176	4,578	9,716
Deferred revenue and advance payments	13,465	(3,967)	18,310
Other long-term liabilities	(2,928)	(2,000)	7,746
Net cash provided by operating activities from continuing operations	30,598	52,163	67,028
Net cash used in operating activities from discontinued operations	(664)	(2,279)	(6,214)
Net cash provided by operating activities	29,934	49,884	60,814
Investing activities:			
Proceeds from redemption of short-term investments	87,000	0	0
Proceeds from sale of investment	0	0	3,371
Purchases of property and equipment	(11,043)	(29,621)	(36,691)
Purchases of short-term investments	(224,103)	0	0
Capitalized software development costs	(5,437)	(8,148)	(5,907)
Insurance proceeds	0	3,206	7,065
(Increase) decrease in restricted cash	(483)	225	(51)

Net cash used in investing activities from continuing operations	(154,066)	(34,338)	(32,213)
Net cash provided by (used in) investing activities from discontinued operations	99,136	(1,495)	(3,969)
Net cash used in investing activities	(54,930)	(35,833)	(36,182)
Financing activities:			
Proceeds from sale of class A common stock under exercise of employee stock options	341	10,250	2,463
Excess tax benefits from share-based compensation arrangements	23,580	0	0
Payments on capital lease obligations and other financing arrangements	(2,284)	(491)	0
Net cash provided by financing activities from continuing operations	21,637	9,759	2,463
Net cash provided by financing activities from discontinued operations	0	0	0
Net cash provided by financing activities	21,637	9,759	2,463
Effect of foreign exchange rate changes on cash and cash equivalents	(863)	949	(1,558)
Net (decrease) increase in cash and cash equivalents	(4,222)	24,759	25,537
Cash and cash equivalents (including held-for-sale of $1,350, $5,300, and $1,512, respectively), beginning of year	224,393	199,634	174,097
Cash and cash equivalents (including held-for-sale of $0, $1,350, and $5,300, respectively), end of year	$ 220,171	$ 224,393	$ 199,634
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$ 78	$ 31	$ 32
Cash paid during the year for income taxes, net of tax refunds	$ 12,941	$ 6,463	$ 1,940
Supplemental disclosure of noncash investing and financing activities:			
Assets acquired under capital lease obligations and other financing arrangements	$ 3,793	$ 2,505	$ 0

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

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MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization

MicroStrategy is a leading worldwide provider of enterprise software platforms. The Company s mission is to provide the most flexible, powerful, scalable, and user-friendly platforms for analytics, mobile, identity, and loyalty, offered either on premises or in the cloud.

The MicroStrategy Analytics Platform enables organizations to analyze vast amounts of data and distribute actionable business insight throughout an enterprise. Our analytics platform delivers reports and dashboards, and enables users to conduct ad hoc analysis and share insights anywhere, anytime, via mobile devices or the Web. The MicroStrategy Analytics Platform is comprised of MicroStrategy Analytics Enterprise, MicroStrategy Analytics Express, and MicroStrategy Analytics Desktop. MicroStrategy Analytics Enterprise lies at the core of the MicroStrategy Analytics Platform and combines the agility and productivity of self-service visual data discovery with the security, scalability, and governance features of enterprise-grade business intelligence. MicroStrategy Analytics Desktop is a standalone desktop tool, available free of charge and designed to enable business users to analyze and understand their data. With MicroStrategy Analytics Desktop, business users can create stunning data visualizations and dashboards that provide new insight and new understanding in just minutes. MicroStrategy Analytics Express is a cloud-based service that is designed to be the fastest way for companies, departments, and small businesses to build and deploy MicroStrategy-caliber analytics with little or no assistance from IT professionals. MicroStrategy Analytics Express guides business people through a streamlined flow from data-to-discovery-to-dashboard-to-distribution.

MicroStrategy Mobile is designed to allow organizations to rapidly build information-rich applications that combine multimedia, transactions, analytics, and custom workflows. The powerful code-free platform approach is designed to reduce the costs of development and enable organizations to get powerful mobile business apps quickly and cost-effectively. MicroStrategy Mobile is an easy, fast, and cost-effective way to mobilize an organization s information systems, including its data warehouses, business intelligence, ERP, CRM, and Web applications that are currently accessible only on the desktop. Using MicroStrategy Mobile, customers can transform their entire workforce into a connected and more productive mobile workforce with mobile apps that are significantly more robust than their Web-only counterparts. With mobile access to critical corporate data and systems that drive the business, employees can have a virtual office in their hands at all times.

MicroStrategy Cloud brings together enterprise analytics, analytical databases, and data integration capabilities in a high performance integrated environment. MicroStrategy Cloud offers on-demand access to the full breadth of the MicroStrategy Analytics Platform and MicroStrategy Mobile capabilities and is optimized for a variety of enterprise applications. Compared to traditional on-premises approaches, MicroStrategy Cloud is quicker to deploy, is more flexible, delivers consistent high-level performance, and offers significant financial advantages. We offer MicroStrategy Cloud as a managed service to organizations that want the power of enterprise analytics and the ability to quickly build and deliver enterprise mobile apps that harness the potential of Big Data analytics.

The MicroStrategy Loyalty Platform, branded as MicroStrategy Alert, is a next-generation, mobile customer loyalty and engagement solution. It is designed to help retailers harness the power of mobile technology by providing a mobile engagement channel to their customers for targeted marketing, commerce, and loyalty. MicroStrategy Alert is offered as a subscription-based service. It includes a consumer-facing branded mobile app; a campaign management system to create and launch targeted campaigns and publish content, as well as design target segments; and a library of content connectors to synchronize content from customers existing Websites and social pages with the

MicroStrategy Alert-powered mobile app.

The MicroStrategy Identity Platform, branded as MicroStrategy Usher, is a mobile identity solution that can deliver biometric-enhanced security to applications and business processes across an enterprise. MicroStrategy Usher can replace ID cards, key cards, employee badges, and passwords with a single mobile identity that is biometrically linked to its owner, cryptographically linked to its owner s phone, and dynamically linked to the enterprise s existing identity repositories. MicroStrategy Usher s architecture leverages three-factor authentication, out-of-band channels, time-limited codes, and bidirectional public key infrastructure encryption to offer enterprises increased protection against fraud and cybercrime. MicroStrategy Usher is designed to allow users to log in to applications, unlock doors, validate one another s identity, and authorize transactions more securely, using their MicroStrategy Usher

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MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

mobile identities. Furthermore, MicroStrategy Usher uses the MicroStrategy Analytics Platform to support behavior monitoring and the detection of abnormal activity for even greater security. MicroStrategy Usher is offered as a subscription-based service.

The MicroStrategy Analytics Platform, MicroStrategy Mobile, and MicroStrategy Cloud together with related product and support services, continue to generate the vast majority of our revenue. During 2013 and 2012, we did not generate significant revenues from the MicroStrategy Loyalty Platform or the MicroStrategy Identity Platform.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company must classify a business line as discontinued operations once the Company has committed to a plan to sell the business. On February 25, 2013, the Company committed to a plan to sell its wholly-owned subsidiary, Angel.com Incorporated (Angel.com), which focused outside of the Company s analytics software and services offerings. On March 15, 2013, the Company completed the sale of this business. Historical financial information presented in the Consolidated Financial Statements and Notes to Consolidated Financial Statements have been reclassified to conform to current year presentation. Refer to Note 16, Discontinued Operations, to the Consolidated Financial Statements for further information.

Certain other amounts in the prior years Consolidated Financial Statements and Notes to Consolidated Financial Statements have also been reclassified to conform to current year presentation. Revenues and cost of revenues have been reclassified in the Consolidated Statements of Operations and deferred revenues have been reclassified in Note 8, Deferred Revenue and Advance Payments, to reflect the new presentation of the Company s three different types of revenue. In addition, bad debt expense and changes in accounts receivable have been reclassified within operating activities in the Consolidated Statements of Cash Flows.

The Company is not aware of any subsequent event which would require recognition.

(b) Use of Estimates

The preparation of the Consolidated Financial Statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. On an on-going basis, the Company evaluates its estimates, including, but not limited to, those related to revenue recognition, allowance for doubtful accounts, investments, derivative financial instruments, software development costs, fixed assets, intangible assets, variable compensation, share-based compensation, income taxes, including the carrying value of deferred tax assets, and litigation and contingencies, including liabilities that the Company deems not probable of assertion. The Company bases its estimates on historical experience and on various other assumptions that are believed to be 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.

(c) Fair Value Measurements

The Company measures certain assets and liabilities at fair value on a recurring basis. Fair value is defined as the price that is expected to be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses a three-level hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques. The three levels of the fair value hierarchy are described below:

Level 1: Quoted (unadjusted) prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

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MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Level 2: Inputs other than quoted prices that are either directly or indirectly observable, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Inputs that are generally unobservable, supported by little or no market activity, and typically reflect management s estimates of assumptions that market participants would use in pricing the asset or liability.

The categorization of an asset or liability within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation techniques used by the Company when measuring fair value maximize the use of observable inputs and minimize the use of unobservable inputs.

The Company also estimates the fair value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, and accrued compensation and employee benefits. The Company considers the carrying value of these instruments in the financial statements to approximate fair value due to their short maturities.

(d) Cash and Cash Equivalents and Restricted Cash

Cash equivalents include bank deposits, U.S. Treasury bills, and equivalent funds. The Company generally considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Restricted cash consists of cash balances restricted in use by contractual obligations with third parties.

(e) Short-term Investments

The Company periodically invests a portion of its excess cash in short-term investment instruments. All highly liquid investments with stated maturity dates between three months and one year from the purchase date are classified as short-term investments. The Company determines the appropriate classification of its short-term investments at the time of purchase.

The majority of the Company s short-term investments are in U.S. Treasury securities and the Company has the ability and intent to hold these investments to maturity. Therefore, these short-term investments are classified and accounted for as held-to-maturity and are reported at amortized cost. Each reporting period, the Company determines whether a decline in fair value below the amortized cost for each individual security is other-than-temporary and if it would be required to sell the security before recovery of its amortized cost basis. If an other-than-temporary impairment has occurred, the amount representing the credit loss is recorded in Other (expense) income, net, and the amount related to all other factors is recognized in Accumulated other comprehensive loss. Upon recognition of an other-than-temporary impairment, the previous amortized cost basis less the other-than-temporary impairment recognized in earnings becomes the new amortized cost basis of the investment.

(f) Derivative Financial Instruments

The Company is exposed to certain risks related to its ongoing business operations, including the effect of changes in foreign exchange rates on the Company s monetary assets and liabilities denominated in foreign currency. The Company uses foreign currency forward contracts as part of its strategy to manage these risks, but does not hold or issue derivative instruments for trading purposes or speculation. We execute these instruments with financial institutions that hold an investment grade credit rating. These foreign currency forward contracts do not meet the requirements for hedge accounting and are recorded on the balance sheet as either an asset or liability measured at their fair value as of the reporting date. Changes in the fair value of derivative instruments, as measured using the three-level hierarchy described above, are recognized in Other (expense) income, net in the Company s Consolidated Statements of Operations.

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MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(g) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows: three years for computer equipment and purchased software, five years for office equipment and automobiles, and ten years for office furniture and owned corporate aircraft, which has an estimated salvage value of 70%. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the term of the lease, whichever is shorter. The Company periodically evaluates the appropriateness of the estimated useful lives and salvage value of all property and equipment. Any change in the estimated useful life or salvage value is treated as a change in estimate and accounted for prospectively in the period of change.

Expenditures for maintenance and repairs are charged to expense as incurred, except for certain costs related to the aircraft. The costs of normal, recurring, or periodic repairs and maintenance activities related to the aircraft are expensed as incurred. The cost of planned major maintenance activities (PMMA) may be treated differently because those activities may involve the acquisition of additional aircraft components or the replacement of existing aircraft components. PMMA are performed periodically based on passage of time and the use of the aircraft. The classification of a maintenance activity as part of PMMA requires judgment and can affect the amount of expense recognized in any particular period. The cost of each PMMA is expected to be capitalized and amortized over the period until the next scheduled PMMA. The costs of the repairs associated with the Company s owned aircraft, which was returned to service in the second quarter of 2012, did not constitute PMMA. There have been no PMMA to date.

When assets are retired or sold, the capitalized cost and related accumulated depreciation are removed from the property and equipment accounts and any resulting gain or loss is recognized in the results of operations.

Eligible internal-use software development costs are capitalized subsequent to the completion of the preliminary project stage. Such costs include external direct material and service costs, employee payroll, and payroll-related costs. After all substantial testing and deployment is completed and the software is ready for its intended use, capitalization ceases and internal-use software development costs are amortized using the straight-line method over the estimated useful life of the software, generally three years.

The Company reviews long-lived assets, including intangible assets, for impairment annually or whenever events or changes in business circumstances indicate that the carrying value of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded value of the asset. If an asset is impaired, the asset is written down by the amount by which the carrying value of the asset exceeds the related fair value of the asset.

(h) Software Development Costs

Software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. Capitalized software development costs include direct labor costs and fringe benefit costs attributed to programmers, software engineers, and quality control and field certifiers working on products after they reach technological feasibility, but before they are generally available to customers for sale. Technological feasibility is considered to be achieved when a product design and working model of the software product have been completed. Capitalized software development costs are typically amortized over the estimated product life of three years, on a straight-line basis.

Capitalized software development costs, net of accumulated amortization, were $10.3 million and $10.4 million as of December 31, 2013 and 2012, respectively. Amortization expense related to software development costs was $5.5 million, $4.8 million, and $7.9 million for the years ended December 31, 2013, 2012, and 2011, respectively, and is included in cost of product licenses and subscription services revenues. During the years ended December 31, 2013, 2012, and 2011, the Company capitalized software development costs of $5.4 million, $8.1 million, and $5.9 million, respectively. The Company analyzes the net realizable value of capitalized software development costs on at least an annual basis and has determined that there is no indication of impairment of the capitalized software development costs as forecasted future sales are adequate to support amortization costs.

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MICROSTRATEGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(i) Loss Contingencies and Legal Costs

The Company accrues loss contingencies that are believed to be probable and can be reasonably estimated. As events evolve during the administration and litigation process and additional information becomes known, the Company reassesses its estimates related to loss contingencies. Legal costs are expensed in the period in which the costs are incurred.

(j) Deferred Revenue and Advance Payments

Deferred revenue and advance payments related to product support, subscription services, and other services result from payments received prior to the performance of services for technical support, subscription, consulting, and education. Deferred revenue and advance payments related to product licenses result primarily from multiple-element arrangements that include future deliverables. Deferred revenue comprises deferred product licenses and subscription services, deferred product support, or other services revenue based on the objective fair value of the multiple elements of the arrangement, except for software licenses for which the Company does not have an objective measure of fair value. The Company offsets its accounts receivable and deferred revenue for any billed and unpaid items included in deferred revenue and advance payments.

As of December 31, 2013, the Company has entered into certain additional agreements that include future minimum commitments by the Company s customers to purchase products, subscription services, product support, or other services through 2018 totaling approximately $119.7 million. As of December 31, 2012, the future minimum commitments by the Company s customers to purchase products, subscription services, product support, or other services through 2017 totaled approximately $110.4 million. These future commitments are not included in 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 the customers meeting their future purchase commitments and the Company s ability to meet its associated performance obligations related to those purchase commitments.

(k) Revenue Recognition

The Company recognizes revenue from sales of software licenses to end users upon:

1) persuasive evidence of an arrangement, as provided by agreements, contracts, purchase orders, or other arrangements, generally executed by both parties;

2) existence of a fixed or determinable fee;

3) delivery of the software; and

4) determination that collection is reasonably assured.

When the fees for software upgrades and enhancements, technical support, consulting, and education are bundled with the license fee, they are unbundled for revenue recognition purposes, using vendor specific objective evidence (VSOE) of fair value of the elements.

Product support or post-contract support (PCS) revenue is derived from providing technical software support and software updates and upgrades to customers. PCS revenue is recognized ratably over the term of the contract, which in most cases is one year. The Company s VSOE for PCS, which includes updates, upgrades, and enhancements, is determined based upon the optional stated renewal fee for PCS in the contract, which is the price the customer is required to pay when PCS is renewed. Additionally, the optional stated renewal fee used to establish VSOE for PCS in a software transaction must be above the Company s minimum substantive VSOE rate for PCS. If a stated renewal rate is considered non-substantive, VSOE of PCS has not been established and the Company recognizes all revenue under the arrangement ratably over the PCS period. A minimum substantive VSOE rate is determined based upon an analysis of historical sales of PCS. For a renewal rate to be non-substantive, the Company believes it must be significantly lower than its minimum VSOE rate. We consider a 10% variance below our minimum VSOE rate to be significant. It is rare for the Company to have an arrangement that includes a renewal rate that is below the minimum VSOE rate.

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Revenue from consulting, education, and subscription services is recognized as the services are performed. The Company s VSOE for services other than PCS is determined based upon an analysis of its historical sales of each element when sold separately from software.

For new offerings of services other than PCS or service offerings that have not had a sufficient history of sales activity, the Company initially establishes VSOE based on the list price as determined by management with the relevant authority. Each service offering has a single list price in each country where sold.

If VSOE exists for all undelivered elements and there is no such evidence of fair value established for delivered elements, the arrangement fee is first allocated to the elements where evidence of fair value has been established and the residual amount is allocated to the delivered elements. If evidence of fair value for any undelivered element of an arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value exists for undelivered elements or until all elements of the arrangement are delivered, subject to certain limited exceptions.

If an arrangement includes acceptance criteria, revenue is not recognized until the Company can objectively demonstrate that the software or service can meet the acceptance criteria, or the acceptance period lapses, whichever occurs earlier. If a software license arrangement obligates the Company to deliver specified future products or upgrades, revenue is recognized when the specified future product or upgrades are delivered, or when the obligation to deliver specified future products expires, whichever occurs earlier. If a software license arrangement obligates the Company to deliver unspecified future products, then revenue is recognized on a subscription basis, ratably over the term of the contract.

License revenue derived from sales to resellers or original equipment manufacturers (OEMs) who purchase the Company s products for resale is recognized upon sufficient evidence that the products have been sold to the end user, provided all other revenue recognition criteria have been met. The Company s standard software license and reseller agreements do not include any return rights other than the right to return non-conforming products for repair or replacement under standard product warranties. During the last three fiscal years, the Company has not experienced any product returns related to warranty claims.

The Company generally offers either commercial discounts or referral fees to its channel partners, depending on the nature of services performed. Revenue recognized from transactions with channel partners involved in resale or distribution activities is recorded net of any commercial discounts provided to them. Referral fees paid to channel partners not involved in resale or distribution activities are expensed as cost of revenues and, during the last three fiscal years, were not significant.

The Company s standard software license agreements do not include any price protection or similar rights. The Company offers price protection to certain government agencies as required by applicable laws and regulations. For example, transactions under the General Services Administration Federal Supply Schedule contract must comply with the Price Reductions clause. In addition, certain government agencies have the right to cancel contracts for convenience. During the last three fiscal years, amounts related to price protection or similar rights clauses and contracts cancelled for convenience were not significant.

Amounts collected prior to satisfying the above revenue recognition criteria are included in net deferred revenue and advance payments in the accompanying Consolidated Balance Sheets.

Software revenue recognition requires judgment, including determinations about whether collectibility is reasonably assured, the fee is fixed and determinable, whether a software arrangement includes multiple elements, and if so, whether VSOE exists for those elements. Judgment is also required to assess whether future releases of certain software represent new products or upgrades and enhancements to existing products.

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The Company also generates subscription services revenues primarily from MicroStrategy Cloud, a cloud-based analytics PaaS. Subscription services revenues include subscription fees from customers for access to the full breadth of the MicroStrategy Analytics Platform and MicroStrategy Mobile capabilities, database services, and data integration services. Our standard arrangements with customers generally do not provide the customer with the right to take possession of the software supporting the cloud-based application service at any time. As such, these arrangements are considered service contracts and revenue is recognized ratably over the service period of the contract, following completion of the set-up service. Any related set-up service fees are recognized ratably over the longer of the contract period or the estimated average life of the customer relationship.

Our MicroStrategy Cloud subscription services are generally offered as stand-alone arrangements or as part of arrangements that include professional services. If deliverables in a multiple-element arrangement have stand-alone value upon delivery, the Company accounts for each such deliverable separately. The Company has concluded that its subscription services and its professional services each have stand-alone value. When the Company enters into multiple-element arrangements that include subscription services and professional services, the total arrangement consideration is allocated to each of the deliverables based on the relative selling price hierarchy. The Company determines the relative selling price for each deliverable using VSOE of selling price, if available, or its best estimate of selling price (BESP), if VSOE is not available. The Company has determined that third-party evidence of selling price (TPE) is not a practical alternative due to differences in its services offerings as compared to other companies and the lack of availability of third-party pricing information. For professional services, the Company has established VSOE because a consistent number of standalone sales of this deliverable have been priced within a reasonably narrow range. For subscription services, the Company has not established VSOE because, among other factors, the offering is relatively new and our pricing model continues to evolve. Accordingly, the Company uses BESP to determine the relative selling price of MicroStrategy Cloud subscription services.

The Company determines BESP by reviewing historical transactions and by considering its pricing models and objectives that take into account factors such as gross margin, the size and volume of the transactions, perceived pricing sensitivity, and growth strategies. The determination of BESP is made through consultation with, and approval by, the Company s management team, taking into consideration the go-to-market strategy. As the Company s pricing and go-to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes to the determination of VSOE and BESP.

Amounts, upon invoicing, are recorded in accounts receivable and either gross deferred revenue or revenue, depending on whether the applicable revenue recognition criteria have been met.

During 2013, 2012, and 2011, the Company did not generate significant revenues from the MicroStrategy Loyalty Platform or the MicroStrategy Identity Platform.

(l) Advertising Costs

Advertising costs include production costs, which are expensed the first time the advertisement takes place, and media placement costs, which are expensed in the month the advertising appears. Total advertising costs were $1.9 million, $4.1 million, and $5.0 million for the years ended December 31, 2013, 2012, and 2011, respectively. As of

December 31, 2013 and 2012, the Company had no prepaid advertising costs.

(m) Share-based Compensation

In September 2013, the Board of Directors approved, subject to stockholder approval, the Company s 2013 Stock Incentive Plan authorizing the grant of an aggregate of 600,000 shares of class A common stock. Under the plan, the Company s employees, officers, directors, and other eligible participants may be awarded various types of share-based compensation, including options to purchase shares of the Company s class A common stock. The Company recognizes share-based compensation expense associated with such stock option awards on a straight-line basis over the award s requisite service period. The share-based compensation expense is based on the fair value of such awards on the date of grant, as estimated using the Black-Scholes option pricing model. See Note 12, Share-based Compensation, to the Consolidated Financial Statements for further information regarding the Company s 2013 Stock Incentive Plan, related share-based compensation expense, and assumptions used in the Black-Scholes option pricing model.

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(n) Income Taxes

The Company is subject to federal, state, and local income taxes in the United States and many foreign countries. Deferred income taxes are provided based upon enacted tax laws and rates applicable to the periods in which the taxes become payable. For uncertain income tax positions, the Company uses a more-likely-than-not recognition threshold based on the technical merits of the income tax position taken. Income tax positions that meet the more-likely-than-not recognition threshold are measured in order to determine the tax benefit recognized in the financial statements. The Company recognizes accrued interest related to unrecognized tax benefits as part of income tax expense. Penalties, if incurred, are recognized as a component of income tax expense.

The Company provides a valuation allowance to reduce deferred tax assets to their estimated realizable value, when appropriate.

(o) Basic and Diluted Earnings Per Share

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

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. As of December 31, 2013 and 2012, there were no shares of preferred stock outstanding.

(p) Foreign Currency Translation

The functional currency of the Company s international operations is the local currency. Accordingly, all assets and liabilities of international subsidiaries are translated using exchange rates in effect at the end of the period and revenue and expenses are translated using weighted average exchange rates for the period. The related translation adjustments are reported in accumulated other comprehensive income (loss) in stockholders equity. Transaction gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved are included in the results of operations.

Transaction gains and losses arising from transactions denominated in foreign currencies resulted in net losses of $3.3 million and $2.0 million in 2013 and 2012, respectively, and a net gain of $0.4 million in 2011, and are included in Other (expense) income, net in the accompanying Consolidated Statements of Operations.

As of December 31, 2013, 2012, and 2011, the cumulative foreign currency translation balances were $(0.8) million, $(1.5) million, and $(2.0) million, respectively.

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(q) Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, short-term investments, foreign currency forward contracts, and accounts receivable. The Company places its cash equivalents and enters into foreign currency forward contracts with high credit-quality financial institutions and invests its excess cash primarily in short-term investments. The Company has established guidelines relative to credit ratings and maturities that seek to maintain safety and liquidity.

The Company sells products and services to various companies across several industries throughout the world in the ordinary course of business. The Company routinely assesses the financial strength of its customers and maintains allowances for anticipated losses. As of December 31, 2013 and 2012, no individual customer accounted for 10% or more of net accounts receivable and for the years ended December 31, 2013, 2012, and 2011, no individual customer accounted for 10% or more of revenue.

(3) Recent Accounting Standards

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02, *Comprehensive Income (Topic 220)* (ASU 2013-02), which established the effective date for the requirement to present components of reclassifications out of accumulated other comprehensive income either in a single note or parenthetically on the face of the financial statements. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012. The adoption of this guidance did not have a material effect on the Company s consolidated financial position, results of operations, or cash flows.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, *Income Taxes (Topic 740)* (ASU 2013-11), which requires the financial statement presentation of an unrecognized tax benefit in a particular jurisdiction, or a portion thereof, as a reduction to a deferred tax asset for a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward, unless the uncertain tax position is not available to reduce, or would not be used to reduce, the NOL or carryforward under the tax law in the same jurisdiction; otherwise, the unrecognized tax benefit should be presented as a gross liability and should not be combined with a deferred tax asset. ASU 2013-11 is effective for interim and annual periods beginning after December 15, 2013. The Company is currently evaluating the impact of this guidance on its consolidated financial position, results of operations, and cash flows.

(4) Fair Value Measurements

Financial assets and liabilities measured at fair value on a recurring basis, by level within the fair value hierarchy, consisted of the following (in thousands), as of:

December 31, 2013
Fair Value Measurements
Using Input Types

	Line Item	Level 1	Level 2	Level 3	Total
Non-hedging derivative assets:					
Foreign currency forward contracts	Prepaid expenses and other current assets	$ 0	$ 5	$ 0	$ 5
Non-hedging derivative liabilities:					
Foreign currency forward contracts	Accounts payable and accrued expenses	$ 0	$ 46	$ 0	$ 46

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The fair value of our foreign currency forward contracts is determined using Level 2 observable market inputs to extrapolate forward points to be added to or subtracted from the closing market spot rate on the reporting date, and then discounted to present value. All foreign currency forward contracts outstanding as of December 31, 2013 were for durations of three months or less and consisted of the following sale contracts (in thousands):

	Notional Value Local Currency		Notional Value U.S. Dollar	Fair Value Gain (Loss) U.S. Dollar
Forward contracts to sell:				
Australian Dollar	AUD	1,128	$ 1,000	$ (2)
Brazilian Real	BRL	3,386	1,400	(4)
British Pound	GBP	910	1,500	(6)
Canadian Dollar	CAD	747	700	(1)
Chinese Renminbi	CNY	10,463	1,700	(12)
Euro	EUR	3,480	4,800	1
Indian Rupee	INR	19,093	300	(3)
Japanese Yen	JPY	136,729	1,300	1
Korean Won	KRW	746,802	700	(4)
Mexican Peso	MXN	3,965	300	(1)
Polish Zloty	PLN	4,852	1,600	(1)
Russian Rouble	RUB	6,715	200	(2)
Singapore Dollar	SGD	509	400	(3)
South African Rand	ZAR	6,374	600	2
Swedish Krona	SEK	1,650	250	(6)
Swiss Franc	CHF	266	300	0
Turkish New Lira	TRY	217	100	1
United Arab Emirates Dirham	AED	739	200	(1)
			$ 17,350	$ (41)

As of December 31, 2012, the Company held no foreign currency forward contracts.

Changes in the fair value of our foreign currency forward contracts during 2013, 2012, and 2011 were as follows (in thousands):

Gains (Losses) on Derivative Instruments Recognized in Income
Years Ended December 31,

	Location	2013	2012	2011
Non-hedging derivative instruments:				
Foreign currency forward contracts outstanding	Other (expense) income, net	$ (41)	$ 0	$ 0
Foreign currency forward contracts settled	Other (expense) income, net	$ (629)	$ 0	$ 0

There were no transfers among the levels within the fair value hierarchy during the years ended December 31, 2013, 2012, and 2011. As of December 31, 2013 and December 31, 2012, the Company had no assets or liabilities that were required to be measured at fair value on a non-recurring basis.

(5) Short-term Investments

The Company periodically invests a portion of its excess cash in short-term investment instruments. Substantially all of the Company s short-term investments are in U.S. Treasury securities, and the Company has the ability and intent to hold these investments to maturity. The stated maturity dates of these investments are between three months and one year from the purchase date. These held-to-maturity investments are recorded at amortized cost and included within Short-term investments on the accompanying Consolidated Balance Sheets. The fair value of held-to-maturity investments in U.S. Treasury securities is determined based on quoted market prices in active markets for identical securities (Level 1 inputs).

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The amortized cost, carrying value, and fair value of held-to-maturity investments at December 31, 2013 were $137.2 million, $137.2 million, and $137.2 million, respectively. The gross unrecognized holding gains and losses were not material for 2013, 2012, or 2011. No other-than-temporary impairments related to these investments have been recognized in accumulated other comprehensive loss as of December 31, 2013. As of December 31, 2012, the Company had no held-to-maturity investments. As of December 31, 2013 and December 31, 2012, the Company s available-for-sale investments were not material.

(6) Accounts Receivable

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

	December 31,	
	2013	**2012**
Billed and billable	$ 190,446	$ 176,511
Less: unpaid deferred revenue	(100,276)	(83,107)
Accounts receivable, gross	90,170	93,404
Less: allowance for doubtful accounts	(3,989)	(4,366)
Account receivable, net	$ 86,181	$ 89,038

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

The Company maintains an allowance for doubtful accounts which represents its best estimate of probable losses inherent in the accounts receivable balances. The Company evaluates specific accounts when it becomes aware that a customer may not be able to meet its financial obligations due to deterioration of its liquidity or financial viability, credit ratings, or bankruptcy. In addition, the Company periodically adjusts this allowance based upon its review and assessment of the aging of receivables.

(7) Property and Equipment

Property and equipment (in thousands) consisted of the following, as of:

	December 31,	
	2013	**2012**
Transportation equipment	$ 48,917	$ 48,369
Computer equipment and purchased software	66,713	59,916

Furniture and equipment	11,647	11,737
Leasehold improvements	29,116	28,434
Internally developed software	8,393	8,615
Property and equipment, gross	164,786	157,071
Less: accumulated depreciation and amortization	(79,341)	(60,320)
Property and equipment, net	$ 85,445	$ 96,751

Included in transportation equipment is the Company s owned corporate aircraft, including capitalizable costs related to the repairs to the aircraft, and aircraft-related equipment. The repair process for the aircraft has been completed and the aircraft was returned to service in the second quarter of 2012. As of December 31, 2013, the net asset value of the aircraft and aircraft-related equipment was $43.0 million, net of $5.6 million of accumulated depreciation. As of December 31, 2012, the net asset value of the aircraft and aircraft-related equipment was $44.0 million, net of $4.1 million of accumulated depreciation.

Included in computer equipment at December 31, 2013 and December 31, 2012 is $2.9 million and $2.5 million, respectively, acquired under capital lease arrangements. At December 31, 2013 and December 31, 2012, accumulated amortization relating to computer equipment under capital lease arrangements totaled $1.7 million and $0.7 million, respectively.

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Depreciation and amortization expense related to property and equipment, including assets under capital leases, was $21.0 million, $17.7 million, and $9.4 million for the years ended December 31, 2013, 2012, and 2011, respectively.

(8) Deferred Revenue and Advance Payments

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

	December 31, 2013	December 31, 2012
Current:		
Deferred product licenses revenue	$ 14,538	$ 12,252
Deferred subscription services revenue	10,923	7,087
Deferred product support revenue	167,771	145,343
Deferred other services revenue	17,056	15,132
Gross current deferred revenue and advance payments	210,288	179,814
Less: unpaid deferred revenue	(96,632)	(78,565)
Net current deferred revenue and advance payments	$ 113,656	$ 101,249
Non-current:		
Deferred product licenses revenue	$ 4,401	$ 3,280
Deferred subscription services revenue	1,161	1,028
Deferred product support revenue	5,877	8,205
Deferred other services revenue	1,175	852
Gross non-current deferred revenue and advance payments	12,614	13,365
Less: unpaid deferred revenue	(3,644)	(4,542)
Net non-current deferred revenue and advance payments	$ 8,970	$ 8,823

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

(9) Cost Method Investment

In 2000, in exchange for licenses to MicroStrategy software, the Company acquired approximately 1.7 million shares of common stock of a provider of online software for event management, Web surveys, and event marketing (the Investee). The shares represented less than 5% of the total outstanding equity interests of the Investee at the date of the transaction. The Company accounted for this investment under the cost method of accounting and previously recorded a permanent impairment for this investment. In July 2011, the Company sold all of its equity interest in the Investee for approximately $3.4 million, which the Company recorded as a gain on sale of investment in the Company s operating results for the year ended December 31, 2011. Sanju K. Bansal, who was Vice Chairman of the Board of Directors of the Company and the Company s Executive Vice President and Chief Operating Officer as of the date of the July 2011 sale transaction, held approximately 10% of the total outstanding equity of the Investee and was also a member of the board of directors of the Investee as of the date of the July 2011 sale transaction.

(10) Commitments and Contingencies

(a) Commitments

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 third-party claims arising from intellectual property infringement. The conditions of these obligations vary and generally a maximum obligation is explicitly stated. Because the conditions of these obligations vary and the maximum obligation is not always explicitly

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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 does not currently expect to incur any material obligations in the future. Accordingly, the Company has not recorded an indemnification liability on its balance sheets as of December 31, 2013 or December 31, 2012.

On March 15, 2013, the Company completed the sale of its wholly-owned subsidiary, Angel.com, pursuant to a stock purchase and sale agreement, which contains certain customary seller representations, warranties, and indemnification provisions.

The Company leases office space and computer and other equipment under operating lease agreements. It also leases certain computer and other equipment under capital lease agreements and licenses certain software under other financing arrangements. Under the lease agreements, in addition to base rent, the Company is generally responsible for certain taxes, utilities and maintenance costs, and other fees; and several leases include options for renewal or purchase. The Company leases approximately 190,000 square feet of office space at a location in Northern Virginia that began serving as its corporate headquarters in October 2010. The term of the lease expires in December 2020. At December 31, 2013 and December 31, 2012, deferred rent of $20.1 million and $22.7 million, respectively, is included in other long-term liabilities and $2.8 million and $2.5 million, respectively, is included in current accrued expenses.

In July 2011, the Company entered into a lease for a 37.5% fractional interest in a corporate aircraft owned and managed by a fractional interest program operator. The Company terminated the fractional interest lease in September 2012 following the return to service of the Company s owned corporate aircraft in the second quarter of 2012.

The following table shows future minimum rent payments under noncancellable operating and capital leases and agreements with initial terms of greater than one year, net of total future minimum rent payments to be received under noncancellable sublease agreements (in thousands), based on the expected due dates of the various installments as of December 31, 2013:

Year	**Operating Leases Amount**	**Capital Leases and Other Financing Amount**
2014	$ 25,736	$ 2,358
2015	21,179	1,515
2016	17,652	104
2017	15,439	0
2018	14,881	0
Thereafter	31,353	0
	$ 126,240	$ 3,977

Total rental expenses under operating lease agreements for the years ended December 31, 2013, 2012, and 2011 were $28.3 million, $26.4 million, and $25.3 million, respectively.

(b) Contingencies

In December 2011, DataTern, Inc. (DataTern) filed a complaint for patent infringement against the Company in the United States District Court for the District of Massachusetts. The complaint alleged that the Company infringes U.S. Patent No. 6,101,502 (the 502 Patent), allegedly owned by DataTern, by making, selling, or offering for sale several of the Company s products and services including MicroStrategy 9, MicroStrategy Intelligence Server, MicroStrategy Business Intelligence Platform, MicroStrategy Cloud Personal, and other MicroStrategy applications for creating or using data mining, dashboards, business analytics, data storage and warehousing, and Web hosting support. The complaint accused the Company of willful infringement and sought an unspecified

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amount of damages, an award of attorneys fees, and preliminary and permanent injunctive relief. In October 2012, the case was stayed pending final judgment in a separate action involving the 502 Patent filed by DataTern in the Southern District of New York, in which MicroStrategy was not a party. Final judgment in that separate action was entered against DataTern in December 2012. In February 2013, MicroStrategy and DataTern filed motions for summary judgment of non-infringement in light of the New York judgment and the Court entered summary judgment against DataTern. In March 2013, DataTern filed a notice of appeal with the United States Court of Appeals for the Federal Circuit. In January 2014, the Court stayed DataTern s appeal pending the disposition of DataTern s appeal of the New York judgment. The Company has received indemnification requests from certain of its resellers who were sued by DataTern in the United States District Court for the District of Massachusetts in lawsuits alleging infringement of the 502 Patent. The outcome of these matters is not presently determinable, and the Company cannot make a reasonable estimate of the possible loss or range of loss with respect to these matters at this time. Accordingly, no estimated liability for these matters has been accrued in the accompanying Consolidated Financial Statements.

In December 2011, Vasudevan Software, Inc. (Vasudevan) filed a complaint for patent infringement against the Company in the United States District Court for the Northern District of California. The complaint alleged that the Company s sale of MicroStrategy 9 and other MicroStrategy products infringes four patents allegedly owned by Vasudevan known as U.S. Patent Nos. 6,877,006, 7,167,864, 7,720,861, and 8,082,268, all entitled Multimedia Inspection Database System for Dynamic Runtime Evaluation. The complaint accused the Company of infringement, inducing others to infringe, and acts of contributory infringement with respect to the patents at issue and sought a permanent injunction, an unspecified amount of damages, and other relief as may be granted by the court. In October 2013, following a series of motions by the parties, the court dismissed the case, entered judgment of non-infringement based on a stipulation of non-infringement filed by Vasudevan, and also granted MicroStrategy s motion for summary judgment of invalidity, finding the four patents in the suit invalid. In November 2013, Vasudevan filed its Notice of Appeal with the United States Court of Appeals for the Federal Circuit. Also in November 2013, Vasudevan filed a motion that was unopposed by the Company to consolidate the appeal with Vasudevan s appeal of a related matter against TIBCO Software, which had also been dismissed by the District Court on summary judgment. In February 2014, in response to Vasudevan s motion, the Court entered an order that the cases be treated as companion cases. The outcome of this matter on appeal is not presently determinable, and the Company cannot make a reasonable estimate of the possible loss or range of loss with respect to this matter at this time. Accordingly, no estimated liability for this matter has been accrued in the accompanying Consolidated Financial Statements.

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

The Company has contingent 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, the Company may be required to record significant expenses and liabilities in the period in which these liabilities are asserted or become probable of assertion.

(11) Income Taxes

U.S. and international components of income from continuing operations before income taxes (in thousands) were comprised of the following for the periods indicated:

	Years Ended December 31,		
	2013	2012	2011
U.S.	$ (6,158)	$ 587	$ (3,490)
Foreign	22,909	31,620	28,690
Total	$ 16,751	$ 32,207	$ 25,200

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The benefit from or provision for income taxes from continuing operations (in thousands) consisted of the following for the periods indicated:

	Years Ended December 31,		
	2013	2012	2011
Current:			
Federal	$ (12,404)	$ 533	$ 1,222
State	172	68	91
Foreign	5,994	7,269	5,344
	$ (6,238)	$ 7,870	$ 6,657
Deferred:			
Federal	$ (3,417)	$ 995	$ (1,095)
State	267	1,310	(305)
Foreign	(411)	(441)	(1,864)
	$ (3,561)	$ 1,864	$ (3,264)
Total (benefit) provision	$ (9,799)	$ 9,734	$ 3,393

The benefit from or provision for income taxes from continuing operations differs from the amount computed by applying the federal statutory income tax rate to the Company s income from continuing operations before income taxes as follows for the periods indicated:

	Years Ended December 31,		
	2013	2012	2011
Income tax expense at federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal tax effect	2.0%	3.0%	0.5%
Foreign earnings taxed at different rates	18.3%	21.5%	23.6%
Withholding tax	9.7%	6.3%	5.4%
Foreign tax credit	5.4%	3.4%	2.5%
Other international components	3.4%	1.9%	3.8%
Change in valuation allowance	0.8%	0.1%	7.1%
Deferred tax adjustments and rate changes	2.8%	0.6%	1.4%
Meals and entertainment	4.5%	2.9%	4.0%
Non-deductible officers compensation	7.1%	2.1%	2.6%

Personal use of corporate aircraft	2.5%	2.6%	2.2%
Subpart F income	2.4%	1.2%	1.4%
Research and development tax credit	12.6%	0.7%	3.3%
Other permanent differences	0.8%	0.6%	-0.2%
Release of unrecognized tax benefits	86.0%	1.9%	2.3%
Total	58.5%	30.2%	13.5%

The 2013 research and development tax credit rate of negative 12.6% is comprised of U.S. research and development tax credits generated in 2013 and 2012. The 2012 U.S. research and development tax credit was retroactively reinstated by the American Taxpayer Relief Act of 2012 signed into law on January 2, 2013 and recorded as a tax benefit in the first quarter of 2013.

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The Company s U.S. and foreign effective tax rates for income from continuing operations before income taxes were as follows for the periods indicated:

	Years Ended December 31,		
	2013	**2012**	**2011**
U.S.	249.7%	495.1%	2.5%
Foreign	24.4%	21.6%	12.1%
Combined	58.5%	30.2%	13.5%

Except as discussed below, the Company intends to indefinitely reinvest its undistributed earnings of all of its foreign subsidiaries. Therefore, the annualized effective tax rate applied to the Company s pre-tax income from continuing operations 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 and no additional tax is incurred on the distribution. The Company repatriated Subpart F deemed dividends to the U.S. of $1.0 million and $2.5 million in 2013 and 2012, respectively, with no additional tax incurred. No Subpart F income was repatriated in 2011. As of December 31, 2013 and December 31, 2012, the amount of cash and cash equivalents and short-term investments, excluding those held for sale, held by U.S. entities was $160.5 million and $39.3 million, respectively, and by non-U.S. entities was $196.9 million and $183.8 million, respectively. If the cash and cash equivalents and short-term investments held by non-U.S. entities were to be repatriated to the U.S., the Company would generate U.S. taxable income to the extent of the Company s undistributed foreign earnings, which amounted to $192.7 million at December 31, 2013. Although the tax impact of repatriating these earnings is difficult to determine, the Company would not expect the maximum effective tax rate that would be applicable to such repatriation to exceed the U.S. statutory rate of 35.0%, after considering applicable foreign tax credits.

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Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company s deferred tax assets and liabilities (in thousands) were as follows for the periods indicated:

	December 31,	
	2013	**2012**
Deferred tax assets, net:		
Net operating loss carryforwards	$ 981	$ 5,439
Tax credits	8,723	9,474
Intangible assets	1,317	2,624
Deferred revenue adjustment	2,746	2,858
Accrued compensation	17,465	15,684
Deferred rent	3,709	4,692
Other	2,911	3,523
	37,852	44,294
Valuation allowance	(77)	(231)
Deferred tax assets, net of valuation allowance	37,775	44,063
Deferred tax liabilities:		
Prepaid expenses and other	1,084	686
Property and equipment	15,751	15,992
Capitalized software development costs	3,791	3,859
Total deferred tax liabilities	20,626	20,537
Total net deferred tax asset	$ 17,149	$ 23,526
Reported as:		
Current deferred tax assets, net	21,555	26,616
Non-current deferred tax assets, net	3,204	3,664
Current deferred tax liabilities	(422)	(523)
Non-current deferred tax liabilities	(7,188)	(6,231)
Total net deferred tax asset	17,149	$ 23,526

The table of deferred tax assets and liabilities shown above does not include a deferred tax asset of $23.4 million related to U.S. federal net operating loss carryforwards of $60.1 million as of December 31, 2012 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting. During the year ended December 31, 2013, the Company was able to recognize and utilize such net operating loss carryforwards in connection with the taxable gain arising from the sale of Angel.com.

As of December 31, 2013, the Company had gross unrecognized tax benefits of $2.6 million, which are recorded in other long-term liabilities. The change in unrecognized tax benefits (in thousands), net of interest and penalties, is presented in the table below:

Unrecognized tax benefits at January 1, 2013	$ 16,095
Decrease related to positions taken in prior period	(157)
Increase related to positions taken in current period	372
Decrease related to settlement with tax authorities	(1,327)
Decrease related to expiration of statute of limitations	(12,671)
Unrecognized tax benefits at December 31, 2013	$ 2,312

If recognized, $2.1 million of the gross unrecognized tax benefits would impact the Company s effective tax rate. Over the next 12 months, the amount of the Company s liability for unrecognized tax benefits shown above is not expected to change significantly. The Company recognizes estimated accrued interest related to unrecognized tax benefits in the provision for income tax accounts. During the year ended December 31, 2013, the Company released accrued interest of $1.3 million. During the years ended December 31, 2013, 2012, and 2011, the Company recognized approximately $0.2 million, $0.3 million, and $0.5 million, respectively, in accrued interest. The amount of accrued interest related to the above unrecognized tax benefits was approximately $0.3 million and $1.2 million as of December 31, 2013 and December 31, 2012, respectively.

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The Company files tax returns in numerous foreign countries as well as the U.S. and its tax returns may be subject to audit by tax authorities in all countries in which it files. Each country has its own statute of limitations for making assessment of additional tax liabilities. The Company s U.S. tax returns for tax years from 2010 forward are subject to examination by the Internal Revenue Service.

The Company s major foreign tax jurisdictions and the tax years that remain subject to examination are Germany and the United Kingdom for tax years 2009 forward, and Spain for tax years 2011 forward. The Company settled tax examinations in Germany and Spain in the second quarter and fourth quarter of 2013, respectively. To date there have been no material audit assessments related to audits in the U.S. or any of the applicable foreign jurisdictions.

The Company had $0.0 million and $71.2 million of U.S. net operating loss carryforwards as of December 31, 2013 and 2012, respectively. As of December 31, 2012, the Company did not recognize a deferred tax asset of $23.4 million related to U.S. net operating loss carryforwards of $60.1 million that arose directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting. The Company had $4.4 million and $3.6 million of foreign net operating loss carryforwards as of December 31, 2013 and 2012, respectively. The Company had domestic research and development tax credit, foreign tax credit, and alternative minimum tax credit carryforward tax assets totaling $8.7 million and $9.5 million at December 31, 2013 and 2012, respectively, which begin to expire in 2016. The timing and ability of the Company to use these losses and credits may be limited by Internal Revenue Code provisions regarding changes in ownership of the Company as discussed below.

The Company s valuation allowances of $0.1 million and $0.2 million at December 31, 2013 and 2012, respectively, primarily relate to certain foreign net operating loss carryforward tax assets.

In determining the Company s provision for or benefit from 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 methodologies, 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 or benefit 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 more likely than not that such deferred tax assets are not realizable.

Section 382 provides an annual limitation on the amount of federal net operating losses and tax credits that may be used in the event of an ownership change. The limitation is based on, among other things, the value of the company as of the change date multiplied by a U.S. federal long-term tax exempt interest rate. The Company does not currently expect the limitations under the §382 ownership change rules to impact the Company s ability to use its net operating loss carryforwards or tax credits that existed as of the date of the ownership change.

(12) Share-based Compensation

In September 2013, the Board of Directors approved, subject to stockholder approval, the Company s 2013 Stock Incentive Plan (the 2013 Plan), under which the Company s employees, officers, directors, and other eligible participants may be awarded various

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types of share-based compensation. The Board of Directors authorized 600,000 shares of the Company s class A common stock for issuance under the 2013 Plan. No awards may be issued more than ten years after the 2013 Plan s effective date. Shares issued under the 2013 Plan may consist in whole or in part of authorized but unissued shares or treasury shares. Stock options that are granted under the 2013 Plan must have an exercise price equal to at least the fair market value of the Company s class A common stock on the date of grant, become exercisable as established by the Board of Directors or the Compensation Committee of the Board of Directors, and expire no later than ten years following the date of grant. The Company recognizes share-based compensation expense associated with such stock option awards on a straight-line basis over the award s requisite service period (generally, the vesting period). The share-based compensation expense is based on the fair value of such awards on the date of grant, as estimated using the Black-Scholes option pricing model. The Company expects to obtain stockholder approval of the 2013 Plan at the Company s annual meeting of stockholders in 2014.

The Black-Scholes option pricing model requires the input of certain management assumptions, including the expected term, expected stock price volatility, risk-free interest rate, and expected dividend yield. The Company estimates the term over which optionholders are expected to hold their stock options by using the simplified method for plain-vanilla stock option awards because the Company s stock option exercise history does not provide a reasonable basis to compute the expected term for stock options granted under the 2013 Plan. The Company relies exclusively on its historical stock price volatility to estimate the expected stock price volatility over the expected term because the Company believes future volatility is unlikely to differ from the past. In estimating the expected stock price volatility, the Company uses a simple average calculation method. The risk-free interest rate is based on U.S. Treasury securities with terms that approximate the expected term of the stock options. The expected dividend yield is based on the Company s past cash dividend history and anticipated future cash dividend payments. The expected dividend yield is zero, as the Company has not previously declared cash dividends and does not currently intend to declare cash dividends in the foreseeable future. These assumptions are based on management s best judgment, and changes to these assumptions could materially affect the fair value estimates and amount of share-based compensation expense recognized.

In September 2013, the Compensation Committee of the Board of Directors approved, subject to stockholder approval of the 2013 Plan, the grant of stock options to purchase an aggregate of 600,000 shares of class A common stock to certain Company executives pursuant to the 2013 Plan. These awards will be terminated or forfeited if stockholder approval is not obtained within 12 months of the date of grant of the award, and no award may be exercised or settled prior to such stockholder approval. However, the Company considers stockholder approval of the 2013 Plan to be perfunctory since our Chairman and Chief Executive Officer holds a majority of the total voting power of all the Company s outstanding voting stock. As of December 31, 2013, there were no shares of class A common stock authorized for additional grants. In the event stockholder approval of the 2013 Plan is not obtained within 12 months of the date of grant of the award, the cumulative share-based compensation expense associated with stock option awards granted under the 2013 Plan would be reversed. The stock option awards vest in equal annual installments over an approximately four-year vesting period (unless accelerated upon a change in control event (as defined in the stock option agreement for the applicable award) or otherwise in accordance with provisions of the 2013 Plan or applicable option agreement).

Prior to the adoption of the 2013 Plan, the Company had maintained other share-based compensation plans with respect to the Company s class A common stock (the Other Stock Incentive Plans), but had not granted any share-based awards under the Other Stock Incentive Plans since the first quarter of 2004 and is no longer authorized to grant any awards under such plans. As of December 31, 2013, there were no outstanding share-based awards granted under the Other Stock Incentive Plans.

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The following table summarizes the Company s stock option activity (in thousands, except per share data and years) for the periods indicated:

	Stock Options Outstanding			
	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Years)
Balance as of January 1, 2011	673	$ 22.42		
Granted	0	0		
Exercised	(143)	17.47	$ 13,682	
Forfeited/Expired	(13)	155.77		
Balance as of December 31, 2011	517	$ 20.31		
Granted	0	0		
Exercised	(501)	20.30	$ 51,564	
Forfeited/Expired	0	0		
Balance as of December 31, 2012	16	$ 20.81		
Granted	600	92.84		
Exercised	(16)	20.81	$ 1,262	
Forfeited/Expired	0	0		
Balance as of December 31, 2013	600	$ 92.84		
Exercisable as of December 31, 2013	0	$ 0	$ 0	0.0
Expected to vest as of December 31, 2013	600	$ 92.84	$ 18,582	9.7
Total	600	$ 92.84	$ 18,582	9.7

No stock options vested during the years ended December 31, 2013, 2012, and 2011. The Company expects all unvested options at December 31, 2013 to fully vest in future years in accordance with their vesting schedules and therefore share-based compensation expense has not been adjusted for any expected forfeitures. The weighted average grant date fair value of stock option awards using the Black-Scholes option pricing model was $42.03 for each share subject to a stock option granted during the year ended December 31, 2013, based on the following assumptions:

	Year Ended December 31, 2013
Expected term of options in years	6.3
Expected volatility	42.8%
Risk-free interest rate	2.5%
Expected dividend yield	0.0%

The Company recognized approximately $2.1 million in share-based compensation expense for the year ended December 31, 2013 from stock options granted under the 2013 Plan. The Company recognized no share-based compensation expense for the years ended December 2013, 2012, and 2011 from stock options granted under the Other Stock Incentive Plans as all such options fully vested in prior years. As of December 31, 2013, there was approximately $23.1 million of total unrecognized share-based compensation expense related to unvested stock options. The Company expects to recognize this remaining share-based compensation expense over a weighted-average period of approximately 3.6 years.

During the year ended December 31, 2013, the Company was able to recognize and utilize net operating loss carryforwards arising directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting that was generated primarily in prior years under the Other Stock Incentive Plans. Accordingly, stockholders equity increased by $23.6 million during the year ended December 31, 2013. No windfall tax benefit was realized from the exercise of stock options during the years ended December 31, 2012 and 2011.

MicroStrategy s former subsidiary, Angel.com, previously maintained a stock incentive plan under which certain employees, officers, and directors of MicroStrategy and Angel.com were granted options to purchase shares of the class A common stock of Angel.com, subject to the satisfaction of both performance and continued service conditions. Share-based compensation expense would have been

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recognized over the requisite service period of the award based on the probability of the satisfaction of the performance condition, reduced by the number of awards that were not expected to vest due to the failure to satisfy the continued service condition. In connection with the sale of Angel.com in the first quarter of 2013, the Angel.com stock incentive plan was terminated and all outstanding options thereunder were terminated in exchange for cash payments totaling $8.0 million. Prior to their termination, no share-based compensation expense was recognized for these awards for the years ended December 31, 2013, 2012, and 2011 because the performance condition had not been satisfied.

(13) Basic and Diluted Earnings per Share

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

The following table sets forth the computation of basic and diluted earnings (loss) per share (in thousands, except per share data) for the periods indicated:

	Years Ended December 31,		
	2013	**2012**	**2011**
Numerator:			
Income (loss) from:			
Continuing operations, net of tax	$ 26,550	$ 22,473	$ 21,807
Discontinued operations, net of tax	56,782	(1,927)	(3,867)
Net income	$ 83,332	$ 20,546	$ 17,940
Denominator:			
Weighted average common shares of class A common stock	9,073	8,768	8,341
Weighted average common shares of class B common stock	2,227	2,227	2,378
Total weighted average common stock shares outstanding	11,300	10,995	10,719
Effect of dilutive securities:			
Employee stock options	1	179	347
Adjusted weighted average shares	11,301	11,174	11,066
Earnings per share:			

Basic earnings (loss) per share						
From continuing operations	$	2.35	$	2.05	$	2.03
From discontinued operations		5.02		(0.18)		(0.36)
Basic earnings per share	$	7.37	$	1.87	$	1.67
Diluted earnings (loss) per share:						
From continuing operations	$	2.35	$	2.01	$	1.97
From discontinued operations		5.02		(0.17)		(0.35)
Diluted earnings per share	$	7.37	$	1.84	$	1.62

Stock options issued under the 2013 Plan to purchase an aggregate of 600,000 shares of class A common stock were excluded from the diluted earnings per share computation for the year ended December 31, 2013 because the effect of their inclusion would have been anti-dilutive. No options to purchase shares of common stock were excluded from the diluted earnings per share computation for the years ended December 31, 2012 and 2011.

(14) Treasury Stock

The Board of Directors has authorized the Company s repurchase of up to an aggregate of $800.0 million of its class A common stock from time to time on the open market through April 29, 2018 (the 2005 Share Repurchase Program), 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

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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 other funding arrangements that the Company may enter into in the future. As of December 31, 2013, the Company had repurchased an aggregate of 3,826,947 shares of its class A common stock at an average price per share of $90.23 and an aggregate cost of $345.3 million pursuant to the 2005 Share Repurchase Program. The average price per share and aggregate cost amounts disclosed above include broker commissions. During the years ended December 31, 2013, 2012, and 2011, the Company did not repurchase any shares of its class A common stock pursuant to the 2005 Share Repurchase Program.

(15) Employee Benefit Plan

The Company sponsors a benefit plan to provide retirement benefits for its employees, known as the MicroStrategy 401(k) Savings Plan (the Plan). Participants may make voluntary contributions to the Plan of up to 50% of their annual base pre-tax compensation, cash bonuses, and commissions not to exceed the federally determined maximum allowable contribution amounts. The Plan permits for discretionary company contributions. Effective April 1, 2008, the Company elected to make a matching contribution to each plan participant in the amount of 50% of the first 6% of a participant s contributions, up to a maximum of $3,000 per year. A participant vests in the matching contributions in increments based on the participant s years of employment by the Company, becoming fully vested after completing six years of employment. The Company made contributions to the Plan totaling $2.7 million, $2.6 million, and $2.6 million during the years ended December 31, 2013, 2012, and 2011, respectively.

(16) Discontinued Operations

On February 25, 2013, the Company committed to a plan to sell its Angel.com business. On March 15, 2013, the Company completed the sale of its equity interest in Angel.com for consideration to the Company of approximately $111.2 million, resulting in a net cash inflow of $100.7 million after $10.5 million in transaction costs. The sale resulted in a gain of $57.4 million, net of tax. As of December 31, 2012, the associated assets and liabilities of the Angel.com business are classified as held-for-sale and are presented in the following table (in thousands):

		December 31, 2012
Assets:		
Cash and cash equivalents	$	1,350
Accounts receivable, net of unpaid deferred revenue of $554 and allowance for doubtful accounts of $347, respectively		4,720
Prepaid expenses, deposits, and other assets		738
Property and equipment, net		3,763
Total assets	$	10,571

Liabilities:		
Accounts payable and accrued expenses	$	1,587
Accrued compensation and employee benefits		2,364
Gross deferred revenue and advance payments, net of unpaid deferred revenue of $554		639
Other liabilities		99
Total liabilities	$	4,689
Net assets and liabilities of disposal group	$	5,882

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The following table summarizes the revenues and pre-tax loss generated by the Angel.com business during the years ended December 31, 2013, 2012, and 2011, respectively, in addition to the pre-tax gain on the sale of Angel.com recorded by the Company during the year ended December 31, 2013 (in thousands):

	Years Ended December 31,		
	2013	**2012**	**2011**
Angel.com revenues	$ 6,320	$ 28,882	$ 24,982
Angel.com pre-tax loss	$ 986	$ 2,976	$ 5,900
MicroStrategy pre-tax gain on sale	$ 94,925	$ 0	$ 0

All other Notes to the Consolidated Financial Statements that were impacted by this discontinued operation have been reclassified accordingly.

(17) Segment Information

The Company manages its business in one operating segment. As discussed in Note 16, the Angel.com business was sold on March 15, 2013. Prior to its divestiture, the Angel.com business was the sole component of the former operating segment Other. The Company s one operating segment is engaged in the design, development, marketing, and sales of analytics software through licensing arrangements and cloud-based subscriptions and related services. It includes the MicroStrategy Analytics Platform, MicroStrategy Mobile, and MicroStrategy Cloud. The Company has also included the MicroStrategy Loyalty Platform, branded as MicroStrategy Alert, and the MicroStrategy Identity Platform, branded as MicroStrategy Usher, as part of its one operating segment for each of the years ended December 31, 2013, 2012, and 2011 because these platforms did not generate significant revenues during these periods. The following table presents total revenues from continuing operations, gross profit from continuing operations, and long-lived assets, excluding long-term deferred tax assets and assets held-for-sale, (in thousands) according to geographic region:

Geographic regions:	**Domestic**	**EMEA**	**Other Regions**	**Consolidated**
Year ended December 31, 2013				
Total revenues	$ 343,073	$ 169,194	$ 63,621	$ 575,888
Gross profit	$ 261,134	$ 123,373	$ 52,812	$ 437,319
Year ended December 31, 2012				
Total revenues	$ 326,333	$ 177,543	$ 61,848	$ 565,724
Gross profit	$ 241,440	$ 133,986	$ 49,222	$ 424,648
Year ended December 31, 2011				
Total revenues	$ 304,407	$ 173,961	$ 58,800	$ 537,168
Gross profit	$ 225,687	$ 133,852	$ 46,931	$ 406,470
As of December 31, 2013				

Long-lived assets	$ 89,342	$ 7,111	$ 5,909	$ 102,362
As of December 31, 2012				
Long-lived assets	$ 95,528	$ 9,650	$ 7,053	$ 112,231

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 years ended December 31, 2013, 2012, and 2011, no individual foreign country accounted for 10% or more of total consolidated revenues from continuing operations.

For the years ended December 31, 2013, 2012, and 2011, no individual customer accounted for 10% or more of total consolidated revenues from continuing operations.

As of December 31, 2013 and 2012, no individual foreign country accounted for 10% or more of total consolidated assets, excluding assets held-for-sale.

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(18) Selected Quarterly Financial Data (Unaudited)

The following tables contain unaudited Statement of Operations information for each quarter of 2013 and 2012. The Company believes that the following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

	Quarter Ended				
	March 31	**June 30**	**September 30**	**December 31**	**Year**
	(in thousands, except per share data)				
2013					
Revenues	$ 130,183	$ 137,905	$ 141,919	$ 165,881	$ 575,888
Gross profit	$ 94,282	$ 101,459	$ 108,666	$ 132,912	$ 437,319
(Loss) income from continuing operations, net of tax	$ (5,191)	$ (1,553)	$ 17,146	$ 16,148	$ 26,550
Discontinued operations, net of tax	56,782	0	0	0	56,782
Net income	$ 51,591	$ (1,553)	$ 17,146	$ 16,148	$ 83,332
Earnings (loss) per share:[1]					
Basic, from continuing operations	$ (0.46)	$ (0.14)	$ 1.52	$ 1.43	$ 2.35
Basic, from discontinued operations	5.03	0	0	0	5.02
Basic earnings (loss) per share	$ 4.57	$ (0.14)	$ 1.52	$ 1.43	$ 7.37
Diluted, from continuing operations	$ (0.46)	$ (0.14)	$ 1.52	$ 1.43	$ 2.35
Diluted, from discontinued operations	5.03	0	0	0	5.02
Diluted earnings (loss) per share	$ 4.57	$ (0.14)	$ 1.52	$ 1.43	$ 7.37

	Quarter Ended				
	March 31	**June 30**	**September 30**	**December 31**	**Year**
	(in thousands, except per share data)				
2012					
Revenues	$ 138,334	$ 135,324	$ 136,080	$ 155,986	$ 565,724
Gross profit	$ 102,604	$ 101,264	$ 101,233	$ 119,547	$ 424,648
Income from continuing operations, net of tax	$ 1,061	$ 7,928	$ 5,134	$ 8,350	$ 22,473

Discontinued operations, net of tax	(789)	(657)	(371)	(110)	(1,927)
Net income	$ 272	$ 7,271	$ 4,763	$ 8,240	$ 20,546
Earnings (loss) per share:[1]					
Basic, from continuing operations	$ 0.10	$ 0.73	$ 0.46	$ 0.74	$ 2.05
Basic, from discontinued operations	(0.07)	(0.06)	(0.03)	(0.01)	(0.18)
Basic earnings per share	$ 0.03	$ 0.67	$ 0.43	$ 0.73	$ 1.87
Diluted, from continuing operations	$ 0.09	$ 0.71	$ 0.46	$ 0.74	$ 2.01
Diluted, from discontinued operations	(0.07)	(0.06)	(0.03)	(0.01)	(0.17)
Diluted earnings per share	$ 0.02	$ 0.65	$ 0.43	$ 0.73	$ 1.84

(1) The sum of the basic and diluted earnings (loss) per share for the four quarters may differ from annual earnings (loss) per share as the weighted-average shares outstanding are computed independently for each of the quarters presented.

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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/ Michael J. Saylor
Name: Michael J. Saylor
Title: Chairman of the Board of Directors and Chief Executive Officer

Date: February 12, 2014

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

Name	Position	Date
/s/ MICHAEL J. SAYLOR **Michael J. Saylor**	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	February 12, 2014
/s/ DOUGLAS K. THEDE **Douglas K. Thede**	Senior Executive Vice President & Chief Financial Officer (Principal Financial and Accounting Officer)	February 12, 2014
/s/ MATTHEW W. CALKINS **Matthew W. Calkins**	Director	February 12, 2014
/s/ ROBERT H. EPSTEIN **Robert H. Epstein**	Director	February 12, 2014
/s/ DAVID W. LARUE **David W. LaRue**	Director	February 12, 2014
/s/ JARROD M. PATTEN **Jarrod M. Patten**	Director	February 12, 2014
/s/ CARL J. RICKERTSEN **Carl J. Rickertsen**	Director	February 12, 2014
/s/ THOMAS P. SPAHR **Thomas P. Spahr**	Director	February 12, 2014

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SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

For the years ended December 31, 2013, 2012, and 2011

(in thousands)

	Balance at the beginning of the period	Additions (1)	Deductions	Balance at the end of the period
Allowance for doubtful accounts:				
December 31, 2013	$ 4,366	2,281	(2,658)	$ 3,989
December 31, 2012	$ 5,628	2,361	(3,623)	$ 4,366
December 31, 2011	$ 4,364	1,449	(185)	$ 5,628
Deferred tax valuation allowance:				
December 31, 2013	$ 231	77	(231)	$ 77
December 31, 2012	$ 736	7	(512)	$ 231
December 31, 2011	$ 2,710	0	(1,974)	$ 736

(1) Reductions in/charges to revenues and expenses.

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INDEX TO EXHIBITS

Exhibit Number	Description
2.1*	Stock Purchase and Sale Agreement by and between MicroStrategy Incorporated and Genesys Telecommunications Laboratories, Inc., dated February 25, 2013 (filed as Exhibit 99.2 to the registrant s Current Report on Form 8-K (File No. 000-24435) filed on March 1, 2013 and incorporated by reference herein).
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	Form of Second Amended and Restated 1999 Stock Option Plan of the registrant (filed as Exhibit 10.7 to the registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (File No. 000-24435) and incorporated by reference herein).
10.2	Form of Stock Option Agreement entered into by executive officers under the registrant s Second Amended and Restated 1999 Stock Option Plan (filed as Exhibit 10.4 to the registrant s Current Report on Form 8-K (File No. 000-24435) filed on November 9, 2004 and incorporated by reference herein).
10.3	Summary of Perquisites and Associated Other Compensation Arrangements for Named Executive Officers.
10.4	Summary of Compensation Arrangements for Non-Employee Directors.
10.5	Sublease Agreement, dated as of January 31, 2011, by and between the Company and Aeromar Management Company, LLC (filed as Exhibit 10.14 to the registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (File No. 000-24435) and incorporated by reference herein).
10.6	Material Terms for Payment of Certain Executive Incentive Compensation (filed as Exhibit 10.10 to the registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (File No. 000-24435) and incorporated by reference herein).
10.7	Summary of Designated Company Vehicles Policy (filed as Exhibit 10.1 to the registrant s Quarterly Report on Form 10-Q (File No. 000-24435) filed on August 3, 2007 and incorporated by reference herein).
10.8	Amended and Restated Performance Incentive Plan (filed as Exhibit 99.1 to the registrant s Current Report on Form 8-K (File No. 000-24435) filed on December 28, 2012 and incorporated by reference herein).
10.9	Angel.com Incorporated Amended and Restated 2009 Stock Incentive Plan (filed as Exhibit 99.1 to the registrant s Current Report on Form 8-K (File No. 000-24435) filed on September 9, 2009 and

incorporated by reference herein).

10.10	Angel.com Incorporated Amendment No. 1 to Amended and Restated 2009 Stock Incentive Plan (filed as Exhibit 99.2 to the registrant s Current Report on Form 8-K (File No. 000-24435) filed on March 27, 2012 and incorporated by reference herein).

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10.11	Form of Stock Option Agreement (Form A) under the Angel.com Incorporated Amended and Restated 2009 Stock Incentive Plan (filed as Exhibit 99.2 to the registrant s Current Report on Form 8-K (File No. 000-24435) filed on September 9, 2009 and incorporated by reference herein).
10.12	Form of Stock Option Agreement (Form B) under the Angel.com Incorporated Amended and Restated 2009 Stock Incentive Plan (filed as Exhibit 99.3 to the registrant s Current Report on Form 8-K (File No. 000-24435) filed on September 9, 2009 and incorporated by reference herein).
10.13	MicroStrategy Incorporated 2013 Stock Incentive Plan (filed as Exhibit 10.1 to the registrant s Current Report on Form 8-K (File No. 000-24435) filed on September 9, 2013 and incorporated by reference herein).
10.14	Form of Nonstatutory Stock Option Agreement (filed as Exhibit 10.2 to the registrant s Current Report on Form 8-K (File No. 000-24435) filed on September 9, 2013 and incorporated by reference herein).
10.15	Summary of 2013 Cash Bonus Arrangements for Michael J. Saylor, Jonathan F. Klein, Douglas K. Thede, Paul N. Zolfaghari, Bob Watts, and Peng Xiao (set forth in Item 5.02 of the registrant s Current Report on Form 8-K (File No. 000-24435) filed on April 4, 2013 under the headings 2013 CEO Bonus Formula , 2013 President Bonus Formulas , and 2013 Cash Bonus Targets for Chief Financial Officer and Chief Technology Officer and incorporated by reference herein).
10.16 +	Senior Executive Vice President & Chief Operating Officer 2013 Bonus Plan (filed as Exhibit 99.1 to the registrant s Current Report on Form 8-K (File No. 000-24435) filed on April 4, 2013 and incorporated by reference herein).
10.21	Summary of Change-of-Control Arrangement with Bob Watts (filed as Exhibit 10.4 to the registrant s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 (File No. 000-24435) and incorporated by reference herein).
21.1	Subsidiaries of the registrant.
23.1	Consent of KPMG LLP.
23.2	Consent of Grant Thornton LLP.
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 Senior Executive Vice President & Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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Management contracts and compensatory plans or arrangements.

* Certain exhibits and schedules to the Stock Purchase and Sale Agreement were omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant will furnish copies of any omitted exhibits and schedules to the Commission upon request.

\+ Certain portions of this Exhibit were omitted by means of redacting a portion of the text. The Exhibit has been filed separately with the Secretary of the Commission with such text pursuant to an Application for Confidential Treatment under Rule 24b-2 under the Securities Exchange Act, as amended.