

Sarbanes-Oxley Act and SEC Rulings Financial Reporting Requirements and Technology Best Practices

Designed to protect investors by increasing the accuracy and reliability of corporate disclosures, the **Sarbanes-Oxley Act of 2002** was signed into United States law on July 30, 2002.

Compliance Category	Companies Now Must Comply with Broader Financial Reporting Standards	Companies Need to Implement a MicroStrategy Powered Financial Performance Management Solution
1. Internal Controls & Procedures	<p>The SEC expects a company's systems to "grow and evolve with its business and [be] capable of producing Exchange Act reports that are timely, accurate, and reliable." Controls and procedures must be in place to gather, analyze, and disclose all required information in Exchange Act reports, which the SEC acknowledges should lead to system "development, or enhancement and modernization" where necessary.</p> <p>Companies must file an internal control report within the annual report that includes:</p> <ul style="list-style-type: none"> ▪ Statements of management's responsibility for establishing and maintaining adequate internal controls and procedures for collection and reporting of financial information; ▪ Conclusions on the effectiveness of those controls and procedures, including disclosure of any material weakness in internal controls; ▪ Statement identifying framework for evaluation, which must be based on a "recognized control framework" of due-process procedures; and ▪ Testimony and report by a public accounting firm on management's evaluation. <p>Any internal control system with one or more material weaknesses must be concluded to be ineffective. Internal control over financial reporting is defined as a process designed to provide reasonable assurance that financial reports are reliable and prepared in accordance with Generally Accepted Accounting Principles (GAAP), including procedures that ensure:</p> <ul style="list-style-type: none"> ▪ Maintaining asset records in reasonable detail; ▪ Recording transactions for financial reporting; ▪ Preventing unauthorized acquisition, use, or disposition of assets; and ▪ Detecting unauthorized acquisition, use, or disposition of assets. <p>Companies must be compliant with the new rules by November 15, 2004 for accelerated filers or July 15, 2005 for all others.*</p> <p>References: New Exchange Act Rules 13a-15 and 15d-15 governing both small and large entities were published by the SEC on August 30, 2002. Rules related to Section 404 of Sarbanes-Oxley Act of 2002 concerning the internal control report were proposed on October 22, 2002 and adopted with amendments on May 27, 2003 by the SEC. * Extension of compliance dates was announced on February 22, 2004.</p>	<p>An integral component of financial reporting controls and procedures is a financial reporting infrastructure that combines and homogenizes data from multiple financial systems into a single cohesive view. With all financial data available in one place, all appropriate users – from CEO to regional sales manager to expense auditor – can access reports and perform detailed and critical analysis.</p> <ul style="list-style-type: none"> ▪ Best Practices Powered by MicroStrategy. Leading companies across all major industries are taking advantage of the powerful financial reporting and analysis capabilities of the MicroStrategy platform. ▪ Single Certified System with All Financial Data in One Place. Obtaining a complete and cohesive financial view by accessing data from multiple operational financial systems from a financial reporting platform is the ultimate first step in creating a financial performance management solution. Additional best practices follow.
2. Quarterly and Annual Reports - Accelerated Filing	<p>For companies (1) with a public float of at least \$75 million, (2) reporting to the SEC for at least 12 months, (3) having previously filed an annual report, and (4) not eligible for small business special forms, the deadlines for filing quarterly and annual reports have accelerated.</p> <p>Accelerated timelines are as follows:</p> <ul style="list-style-type: none"> ▪ For the 10-K: 90 days in 2002, 75 in 2003, and 60 in 2004 and thereafter. ▪ For the 10-Q: 45 days in 2002, 40 in 2003, and 35 in 2004 and thereafter. <p>Reference: Rules on accelerated filing deadlines were adopted by the SEC on August 27, 2002 and published on September 5, 2002.</p>	<p>Companies are replacing static paper and Excel-based statements with financial reporting on MicroStrategy's BI platform. Immediacy and speed are increasingly important. Financial reporting systems increase efficiency by enabling verification and "grass-roots" auditing <u>throughout</u> the financial period.</p> <ul style="list-style-type: none"> ▪ Immediate Access to Data Updates from Operational Systems. With MicroStrategy, updates to the financial data warehouse are immediately reflected in reports down to the most granular level of detail. ▪ Proactive Financial Data Delivery. MicroStrategy enables real-time delivery of financial results to email and wireless devices. ▪ Fully Interactive Query and Reporting with Powerful Analytics. Unlike cube-based BI technologies, MicroStrategy is not restricted by proprietary cube population and aggregation. Rather, MicroStrategy is able to provide live, interactive reporting which allows users to drill anywhere in the database.

Note: This document highlights certain sections of the Sarbanes-Oxley Act of 2002, as well as proposals and rulings by the Securities and Exchange Commission (SEC), that pertain to financial reporting controls and procedures that can be addressed in whole or part by technology solutions. It does not include information on sections, proposals or rulings by the SEC unrelated to technology solutions for financial reporting controls and procedures (e.g. adoption of a code of ethics). Information will be updated on a periodic basis and is intended to serve as a supplemental reference tool. March 2004, MicroStrategy, Inc., All Rights Reserved.

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<p>3. Current Reports on Material Changes - Accelerated Filing and Additional 8-K Disclosure Requirements</p>	<p>Companies must report material changes in financial condition or operations "on a rapid and current basis." Amendments to the Form 8-K (Current Reports) have been adopted.</p> <p>The number of reportable items has increased from 6 to 16, with two items transferring to the current report from the periodic reports. Disclosure deadlines have tightened with the number of days after occurrence accelerating from 5 or 15 days (depending on item) to 4 business days.</p> <p>The 8 new disclosure items are:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 2px;"> <ul style="list-style-type: none"> ▪ Entry into a material non-ordinary course agreement </td> <td style="width: 50%; padding: 2px;"> <ul style="list-style-type: none"> ▪ Termination of a material non-ordinary course agreement </td> </tr> <tr> <td style="padding: 2px;"> <ul style="list-style-type: none"> ▪ Creation of a material direct financial obligation or a material obligation under an off-balance sheet arrangement </td> <td style="padding: 2px;"> <ul style="list-style-type: none"> ▪ Triggering events that accelerate or increase a material direct financial obligation or a material obligation under an off-balance sheet arrangement </td> </tr> <tr> <td style="padding: 2px;"> <ul style="list-style-type: none"> ▪ Material costs associated with exit or disposal activities </td> <td style="padding: 2px;"> <ul style="list-style-type: none"> ▪ Material impairments </td> </tr> <tr> <td style="padding: 2px;"> <ul style="list-style-type: none"> ▪ Notice of delisting or failure to satisfy a continued listing rule or standard; transfer of listing </td> <td style="padding: 2px;"> <ul style="list-style-type: none"> ▪ Non-reliance on previously issued financial statements or a related audit report or completed interim review (restatements) </td> </tr> </table> <p>Companies must comply with these amendments by August 23, 2004.</p> <p>References: Section 409 of Sarbanes-Oxley Act of 2002 was adopted by the SEC on August 27, 2002. Rules on disclosure requirements and filing deadlines were published on March 11, 2004.</p>	<ul style="list-style-type: none"> ▪ Entry into a material non-ordinary course agreement 	<ul style="list-style-type: none"> ▪ Termination of a material non-ordinary course agreement 	<ul style="list-style-type: none"> ▪ Creation of a material direct financial obligation or a material obligation under an off-balance sheet arrangement 	<ul style="list-style-type: none"> ▪ Triggering events that accelerate or increase a material direct financial obligation or a material obligation under an off-balance sheet arrangement 	<ul style="list-style-type: none"> ▪ Material costs associated with exit or disposal activities 	<ul style="list-style-type: none"> ▪ Material impairments 	<ul style="list-style-type: none"> ▪ Notice of delisting or failure to satisfy a continued listing rule or standard; transfer of listing 	<ul style="list-style-type: none"> ▪ Non-reliance on previously issued financial statements or a related audit report or completed interim review (restatements) 	<p>Companies need to have systems in place for manual and automatic detection of material changes and must be able to report on these changes in a timely and straightforward manner.</p> <ul style="list-style-type: none"> ▪ Active Alerts to Specific Users. Using MicroStrategy, companies actively alert appropriate individuals based on anomalies or such variance triggers as: <ul style="list-style-type: none"> ▪ Abnormal Trends or Significant Deltas in Actual vs. Plan, Budget, Historical, or Logical ▪ Unexpected Acceleration of Revenue Recognition, Deferral of Expenses, or Change in Cash Balance ▪ Inconsistent Adjustments to Inventory Reserves, Bad Debt Reserves, and Capitalizable Assets ▪ Time-Based Analysis. For the "trend information" mentioned in Section 409, MicroStrategy makes such analysis and information possible easily through out-of-the-box time transformation and comparative and dynamic date functions. Users can compare any data with any other data to determine trends and root causes. ▪ Precise Data Presentation and Formatting. For the "graphical presentations" mentioned in Section 409, boardroom quality reports and dashboards are readily available to MicroStrategy users.
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<p>4. Certification of Disclosure in Quarterly and Annual Reports</p>	<p>CEOs and CFOs must sign off on quarterly and annual reports, including transition reports, to certify:</p> <ul style="list-style-type: none"> ▪ Verification of report review and confirmation that it (1) does not contain any untrue statement of material fact, (2) includes all material facts, and (3) fairly presents in all material respects the financial condition, results of operations, and cash flows ▪ Responsibility for establishing and maintaining disclosure controls and procedures such that material information is made known to them ▪ Evaluation of disclosure controls and procedures within 90 days of report date and conclusions about effectiveness of disclosure controls and procedures ▪ Disclosure (to auditors and audit committee) of: (1) any deficiencies in design/operation of internal controls, (2) any material weaknesses in internal controls, and (3) any fraud that involves anyone with an internal control role ▪ Indication of any changes in internal controls, including any corrective actions regarding internal control deficiencies and weaknesses <p>Certification must be "included in" all periodic reports as an exhibit in order to be more readily accessed in the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system.</p> <p>References: Section 302 of Sarbanes-Oxley Act of 2002 was implemented by the SEC on August 29, 2002 via new Exchange Act Rules 13a-14 and 15d-14 published by the SEC on August 30, 2002. Proposed rule on changes to list of required exhibits (Item 31) was posted by the SEC on March 21, 2003.</p>	<p>CEOs, CFOs, and members of Disclosure Committees need to have complete and continuous visibility into financial corporate health through reports and interactive analysis. Companies use MicroStrategy's reporting and analytical capabilities to continually review and certify financial data throughout the time period (prior to and during final report creation), drilling deep into data and making inquiries as appropriate. The following best practices support the certification process.</p> <ul style="list-style-type: none"> ▪ Materiality Spotlight Reports. By setting and running spotlight reports, companies can "police" financial accounting and reporting of material items. Data qualifications, rankings by value and percentile, and variance triggers are examples of spotlights that can be customized to address individual points of vulnerability on a customer-specified schedule. ▪ Extension of Financial Reviews Outside of Finance Department While Maintaining Complete Security and Privacy. CEOs, CFOs, principal accounting officers, general counsels, principal risk management officers, principal investor relations officers, business unit managers, and rank-and-file employees need to actively and consistently have access to financial data. Companies control security and permissions with MicroStrategy along financial perspectives and depth of data, thereby extending financial reviews as permissible and logical. ▪ "Live Reports" Drillable to the Lowest Level of Transaction Detail. MicroStrategy allows users to interact and investigate any aspect of the data easily and instantly. 								

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5. Enhanced Financial Disclosures	<p>Management Discussion & Analysis (MD&A) disclosure must include more information and greater transparency. Specifically, the SEC guidance outlines attention to:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 2px;"> <ul style="list-style-type: none"> ▪ Overall presentation and focus of MD&A (including executive-level overviews and reduction in duplicative information) </td> <td style="width: 50%; padding: 2px;"> <ul style="list-style-type: none"> ▪ Emphasis on analysis of financial information </td> </tr> <tr> <td style="padding: 2px;"> <ul style="list-style-type: none"> ▪ Known material trends and uncertainties </td> <td style="padding: 2px;"> <ul style="list-style-type: none"> ▪ Key performance indicators, including non-financial indicators </td> </tr> <tr> <td style="padding: 2px;"> <ul style="list-style-type: none"> ▪ Liquidity and capital resources </td> <td style="padding: 2px;"> <ul style="list-style-type: none"> ▪ Critical accounting estimates </td> </tr> </table> <p>Further, there must be a separately captioned subsection of the MD&A to explain off-balance sheet arrangements. In addition, an overview of certain known contractual obligations must be provided in a tabular format in the MD&A.</p> <p>Public companies that disclose or release such non-GAAP financial measures must also disclose or release the most directly comparable GAAP financial measure and a reconciliation of the disclosed non-GAAP financial measure to the most directly comparable GAAP financial measure.</p> <p>References: Guidance issued by SEC on December 19, 2003. MD&A recommendations arise from conclusions of January 2003 study pursuant to Section 704 of Sarbanes-Oxley Act of 2002 whereby the SEC performed a 1997-2002 study to identify areas of issuer financial reporting that are most susceptible to fraud, inappropriate manipulation, or inappropriate earnings management. Section 401 of Sarbanes-Oxley Act of 2002 concerns enhanced financial disclosures. Rules on MD&A disclosure of off-balance sheet arrangements and aggregate contractual obligations were published on January 28, 2003 and are effective as of April 7, 2003. Regulation G, concerning non-GAAP financial measure disclosure, was published on January 22, 2003 and is effective as of March 28, 2003.</p>	<ul style="list-style-type: none"> ▪ Overall presentation and focus of MD&A (including executive-level overviews and reduction in duplicative information) 	<ul style="list-style-type: none"> ▪ Emphasis on analysis of financial information 	<ul style="list-style-type: none"> ▪ Known material trends and uncertainties 	<ul style="list-style-type: none"> ▪ Key performance indicators, including non-financial indicators 	<ul style="list-style-type: none"> ▪ Liquidity and capital resources 	<ul style="list-style-type: none"> ▪ Critical accounting estimates 	<p>Top-level management is required to provide narrative explanation, give context to enhance financial disclosure, and explain the quality and potential variability of earnings and cash flow in the MD&A.</p> <ul style="list-style-type: none"> ▪ Statistics and Data Mining for Analysis of Trends and Uncertainties. MicroStrategy enables statistical analysis of financial data, including variance and regression analyses. ▪ Key Performance Indicators. Companies use MicroStrategy for enterprise-wide analysis across multiple departments with key performance indicators spanning financial and non-financial areas. All key performance indicators reside in MicroStrategy's single unified metadata and therefore have singular definitions for complete accuracy. Financial and non-financial managers alike view these key performance indicators on scorecards, dashboards, and reports over the Web. ▪ Report Commentary and Metric Definitions. Companies report on financial data with the MicroStrategy platform, adding explanatory notes and commentary for clarity and information sharing. Companies have visibility into metric definitions and formulae and manage GAAP and non-GAAP measures on the MicroStrategy platform for comprehensive reporting and comparative analyses. ▪ Enterprise Reporting and Investigative Analysis. Companies use MicroStrategy for all enterprise reporting needs, from tabular grid-based reports to highly graphical dashboards. Information can be presented at summary and transaction levels of detail, with users drilling anywhere in the database for full investigative analysis.
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6. Corporate Responsibility	<p>Criminal penalties are in effect for certification of reports not compliant with the Securities Exchange Act of 1934 and penalties have increased for violations of the 1934 Act.</p> <ul style="list-style-type: none"> ▪ A signing officer who willfully certifies a non-compliant report shall be exposed to a fine of up to \$5M and/or an imprisonment up to 20 years. ▪ Fines can approach \$5M (up from \$1M) for individuals and \$25M (up from \$2.5M) for entities. <p>Certification must "accompany" as an exhibit any periodic reports containing financial statements pursuant to Section 13(a) or 15(d) of the Exchange Act.</p> <p>References: Sections 906 and 1106 of Sarbanes-Oxley Act of 2002 went into effect immediately on July 30, 2002. Proposed rule on changes to the list of required exhibits (Item 32) was posted by the SEC on March 21, 2003.</p>	<p>Companies gain reliable, accurate, and complete financial reporting with MicroStrategy's industrial strength business intelligence platform.</p> <p>For companies seeking to implement a financial reporting solution most efficiently, MicroStrategy offers a financial rapid application development kit, the financial reporting and analysis module with predefined best-practices reports, business dimensions, and metrics which companies augment and customize as desired.</p>						