

MicroStrategy's CEO Sped to the Brink

By Mark Leibovich
Washington Post Staff Writer
Sunday, January 6, 2002

There were times, when it was all going right, when Michael Saylor would stare out the huge oval windows of his leased Gulfstream jet and fixate on the Rocky Mountains passing below him. He would marvel at how he was covering more territory in five minutes than the western settlers covered by wagon over several months.

This was back in 2000, at the height of the Internet age. In a few Nasdaq months, Saylor's newly public firm, MicroStrategy Inc., had gained a stock value that exceeded the total worth of his former employer, the venerable DuPont Co., 198 years old. In a few Nasdaq seconds, Saylor could amass more wealth than his father had in his 30-year Air Force career.

It didn't matter that MicroStrategy was just a software maker that helped companies manage their inventory and customer information. Saylor had what he called "the dot-com halo," the aura that came with being not just a business, but a revolutionary one. He became an icon to his "constituencies," as he called them -- the media, Wall Street, his employees. He wasn't building a firm as much as a belief system.

"We're purging ignorance from the planet," Saylor often declared in his high, throaty voice. He was on a "crusade for intelligence," one that sounded just grandiose enough to be plausible at a time when technology chief executives stirred such exuberance, rational or otherwise.

On Feb. 4, 2000, with MicroStrategy's shares at \$142 and his paper wealth shooting into the billions, Saylor hosted a 35th birthday party for himself at Cities, the fashionable Adams Morgan restaurant. "Guess who's old enough to run for president?" the invitation said, and Saylor duly announced his candidacy that night, a would-be standard bearer for "The Technology Party." He was kidding. Or seemed to be. But at the time it seemed weirdly possible.

Then, just a few weeks later, it all crashed -- a flip of fortunes that was sudden even by the exaggerated norms of the late 1990s and the early part of 2000. Saylor's life and company became object lessons in how ephemeral success could be in the new economy, how perspective could be so easily lost, and how myths -- and stock fortunes -- could so easily vanish. When MicroStrategy's story began to unravel, at least some industry and Wall Street watchers believe, it signaled the end of that era. "This one popped the bubble," wrote James Cramer, columnist for TheStreet.com. "MicroStrategy forever changed the Internet mania."

In a starkly compressed time frame, Saylor was transformed from a new world titan to an age-old parable: "It's the same story in a way of a classic Greek tragedy," said Don Griffith, a former Securities and Exchange Commission lawyer who grew up with Saylor in the Dayton suburb of

Fairborn, Ohio. "It's the story of Icarus and Daedalus. Mike was the guy who flew too close to the sun."

Saylor grew up wanting to be an Air Force fighter pilot, attended MIT on an ROTC scholarship and entered business after a heart murmur grounded him. He often applied flying metaphors to his corporate rise. He spoke of how the "juice" of high-speed business can either "skyrocket" an entrepreneur or "blow him up." He also did some of his best thinking in the back of the Gulfstream, the night sky heightening his solitude. These were mostly peaceful meditations. But not the one on the flight that Saylor remembers best.

Late on Friday night, March 17, 2000, Saylor was flying to Washington from San Francisco. It was a few days before MicroStrategy was scheduled to sell newly issued stock to the public, which would help the company pay for its CEO's manic expansion plans. The sale was expected to raise \$2 billion -- the largest public offering in software industry history.

Saylor was returning from a "roadshow," the ritual that comes before a stock issue in which executives promote their companies to big investors and fund managers around the country. By every appearance, Saylor's meetings were going well, and shares of MicroStrategy finished the week at \$226.75. "I'm at the top of the world, everybody loves me," recalled Saylor, who was then the wealthiest person in the Washington area, at least on paper. "Everybody loves the company, we're hitting the cover of every magazine. . . . I was household."

But Saylor knew that he had a secret. A week earlier, MicroStrategy's financial auditor, PricewaterhouseCoopers, had called into question some of the company's accounting records. The accountants wanted MicroStrategy to restate some of its financial reports, a potentially devastating step that could send Wall Street into a selling panic. Negotiations had raged all week between officials of MicroStrategy and PricewaterhouseCoopers to determine the need for, or magnitude of, a restatement. Meanwhile, Saylor continued to pitch his company to eager investors in Chicago, Kansas City, Los Angeles and San Francisco.

When the roadshow ended, Saylor flew home, sullen and alone on a beige leather sofa in the back of the \$40 million jet. "I know the gods have this wicked sense of humor because of what they did to me," Saylor said later. "They put me in a position where I was simultaneously the most successful person of my generation and in hell. All at the same time."

Like the company he still leads, Saylor seems diminished and weary by what he calls "my ordeal." In the same way that presidents, in their photographs, look as though they've aged eight years for every four they've been in the White House, Saylor, now 36, seems to have aged about six since his 35th birthday. His boyish flop of brown hair has gone half gray. His fresh round face has become jowly and bearded. His chest-out walk, once the stomping gait of a man who knew exactly where he wanted to go, has acquired an uncertain slump.

In a series of interviews between May and January, Saylor seemed at once humbled by his experience and bitter. At times, he drew comparisons between himself and victims of diseases or violent crimes. "I don't think that the trauma or stress I felt is any worse than the stress that a father feels when his son has leukemia," Saylor said last summer, describing his feelings during his company's sudden fall. "Or whose wife is dying. I think it's the same . . . in my case, it was my company catching leukemia."

Saylor always fancied his mission to be a seminal one. His role models were Caesar, Churchill, Gandhi and Gates. He decorated his basement with framed press clippings about himself. He kept a sculpture of Rodin's "The Thinker" in his office and he had a searing need to believe that MicroStrategy was doing work for the ages. And, for a while, his constituencies needed to believe in him as well -- in all his possibility, in all the new economic rules that his success seemed to prove.

As it turned out, Saylor earned his place in history through the narrative of his rise and swoon. This series of articles reconstructs that story. It is based on interviews with Saylor and more than 100 people who have known, watched or worked with him. It is also based on court documents, company memos and internal e-mails that were provided to, or summarized for, The Washington Post by officials at MicroStrategy and sources involved in private lawsuits and an SEC investigation of the company.

What emerges is a vivid dispatch from one of the most perplexing and tumultuous periods in economic history. It also provides one of the great, and largely unseen, corporate dramas in the evolution of the Washington area as a major technology center.

At the story's hyperkinetic center is Michael Saylor, who became the exemplar of two eras, boom and bust, in their greatest extremes. And it all happened in a matter of days.

"I guess," Saylor said, smiling at the thought, "that I represent a strange piece of history."

'Hit the Floor Running'

The thinking went like this: If Thomas Edison were to write a book about his life and legacy, it would be called "Electricity." So Michael Saylor believed that he should write a treatise of his own, called "Intelligence."

His pursuit -- to make the species up-to-the-second smarter -- was so elemental to civilization that it needed to be distilled in a book, one of those really big books, maybe more than a thousand pages. Not for vanity's sake, but for history's.

On Jan. 31, 2000, before a meet-and-greet with former Treasury secretary Robert Rubin, Saylor met with the literary agent Amanda "Binky" Urban in Midtown Manhattan to discuss "Intelligence." She was intrigued by the idea, and they agreed to keep in touch.

People throughout Saylor's life describe him as the smartest person they have ever met. "Usually you find a guy with [Saylor's] intellect in the back of some lab, interacting with rats," said Joe Robert, a Washington area real estate maven who befriended Saylor during his rise. But Saylor was no outcast, Robert said. He could converse on diverse topics and with multiple audiences: He could quote from Augustus and "Caddyshack" alike, talk circuitry with engineers, numbers with financiers, Big Vision with investors and bachelorhood with the media.

He loved music, played the tenor sax and trombone as a teenager, and would later teach himself guitar and piano. He was valedictorian at Park Hill High School in Fairborn, where he lived from age 11 with his parents, brother and sister in a small aluminum-sided duplex on Wright-Patterson Air Force Base. He was raised in a taut, Southern Baptist household, steeped in chore regimens and vice-free conservatism -- no cussing, smoking, drinking. "Hit the floor running, son," Chief Master Sgt. Jerry Saylor would yell into his son's bedroom, after waking him at 6 a.m. with a

loud clap. The \$50,000 ROTC scholarship Saylor earned from MIT was worth five times the amount of his family's entire savings at that time.

John Sterman, a marketing professor at MIT, said Saylor was "always an unusual fellow, far more serious than most at MIT. . . . a student you wouldn't forget." For a class project, Saylor built a computer-simulation model that applied the ideas of Plato's "Republic" to an ideal civilization. To meet his undergraduate thesis requirement, Saylor, inspired by Machiavelli's "Discourses," wrote a computer program that simulated the reactions of varied government systems to calamities such as famines, plagues and war. He graduated with highest honors, earning a degree in aeronautics and astronautics, as well as one in science, technology and society.

Saylor started MicroStrategy in 1989 with Sanju Bansal, his MIT roommate and fraternity brother. Saylor had spent two years writing computer models for DuPont's titanium dioxide business, but wanted to start his own business. He persuaded his boss to give him a \$250,000 consulting contract to continue building computer models. The deal came with office space near DuPont's headquarters in Wilmington, Del.

In 1992 MicroStrategy developed an early version of the product that would become its franchise: software that allowed companies to extract useful bits of information from their unwieldy corporate databases. By using the software, for instance, McDonald's could learn that a Chicago franchise was four times more likely to sell Big Macs on winter Friday nights than was a franchise in Miami (where customers disproportionately preferred filet-of-fish sandwiches). While seemingly trivial, such data would prove vital to the companies, and even as other software companies were developing similar "data-mining" products, as they were called, Saylor and Bansal were able to impress and attract an early array of Fortune 500 customers.

In 1994 Saylor and Bansal moved the company and its 50 employees from Wilmington to Tysons Corner, figuring it would be easier to lure elite workers to the Washington area, "a major center of civilization," Saylor said. MicroStrategy doubled its revenue every year between 1994 and 1997.

'Information Everywhere'

Part of Saylor's marketing savvy in the late 1990s sprang from his unwillingness to stay confined to the niche of back-office technology. No matter how solid MicroStrategy's business and product was, Saylor felt restless. What Saylor craved -- and ultimately sold -- was a higher corporate purpose for MicroStrategy: He wasn't so much making tools as much as he was "freeing information." He wasn't a seller of data-mining software but a purveyor of "intelligence," just as Bill Gates's mission at Microsoft wasn't simply to sell software for personal computers but to put "a computer on every desktop."

In computing history, which Saylor studied closely, the dominant companies have been the ones that could shroud the unsexy functionality of their products in the sleek possibility of What Could Come Next. As Internet, database and wireless technologies evolved, Saylor said, information would soon become an essential utility, "like water," and MicroStrategy would be the company that spread it everywhere. Enlightening McDonald's about its Big Mac sales was just a start of a grand technological crusade that would eventually "purge ignorance from the planet."

By the time MicroStrategy held its initial public offering of stock in 1998, Saylor was gaining little notice for his data-mining products and plenty for his vow to spread "information everywhere." He began to pitch his company's software products in mystical rhetoric. The back cover of MicroStrategy's prospectus -- published in conjunction with the IPO -- included a boldface quotation from science fiction author Arthur C. Clarke: "Any sufficiently advanced technology is indistinguishable from magic."

Shares were priced at \$6 for the June 11 offering (adjusted for a Jan. 4, 2000, stock split), and they doubled by midday. On the Merrill Lynch trading floor that morning, Saylor grinned as he noted that "MSTR," MicroStrategy's ticker symbol, was listed on the Nasdaq ticker right after "MSFT" (Microsoft), a company that Saylor idolized.

"Warning," a message flashed over the trading floor. "Do not confuse MSTR with MSFT."

The Grand and the Grandiose

On the surface, MicroStrategy seemed the prototype of the democratic new-economy workplace: Employees could wear jeans to work and were always free to e-mail the CEO with ideas. But these egalitarian appearances belied the company's military ethos, with Saylor as a ubiquitous general in a theater of his own creation. To a degree that is unusual among even the most obsessive entrepreneurs, MicroStrategy has been Saylor's life. He worked late into most nights, often seven days a week.

Saylor fervidly protected his ownership stake in the firm, and this insistence almost led to the company's demise before it left Wilmington. In 1994, the firm's senior managers -- Sid Banerjee, Dave Sherwood, Steve Trundell, Eduardo Sanchez, Ed Jurcisin and Manish Acharya -- were working long hours and receiving relatively low salaries. When they asked for an equity stake, Saylor and Bansal resisted until the managers finally walked out en masse on a Friday. By Monday, the group had retained a lawyer. Negotiations ensued, and the dispute was settled when Saylor and Bansal agreed to grant the managers a collective 7 percent of the young firm.

Saylor was even more hesitant to give any ownership stake to outside investors, particularly venture capitalists, a species he publicly loathed and distrusted. He feared that venture capitalists -- or other big investors -- would "dilute the vision" of his company. At the time of the IPO, Saylor retained a remarkable 73.1 percent, or 22.5 million, of the company's shares (Bansal held another 12 percent). This effectively allowed Saylor to do as he pleased with his firm, unconcerned by any possibility of ever being overruled, taken over or forced out by other investors.

Saylor's childhood bred in him a strong sense of insularity and control. "I'm very at home in paternalistic environments," Saylor said. Each winter, he took his employees on a Caribbean cruise (no spouses allowed) to promote corporate solidarity. New workers underwent a rigorous "boot camp" where they were drilled on the arcana of MicroStrategy's business and required to complete an outdoor ropes course. Saylor's top lieutenants comprised a brainy fraternity of longtime male pals, several of whom had attended MIT together. Executives who came from other companies often had brief and unpleasant experiences at MicroStrategy.

Saylor was prone to volcanic impatience. "Are you trying to kill us?" Saylor would boom in meetings, or invoke a well-known Gatesism, "That's the stupidest [expletive] thing I've ever heard." If a person was talking too slowly, Saylor would often take out his Dell laptop and start

doing other work. His longtime associates viewed him with a mix of awe and dread: They marveled at his zooming technology mind and also spent a lot of time anticipating what might preoccupy or set him off next. One executive compared the dynamic of MicroStrategy's executive team to "alcoholics around a dinner table."

When he was not speaking, Saylor's eyes would assume a sunken deadness. He spoke in a robotic cadence, as if delivering social graces -- "Nice to see you again" -- by dint of some how-to program embedded in his skull. He would sometimes talk with such energy that his face twitched. He habitually slammed doors, even when he was not upset. Even his closest friends say Saylor can often be long-winded, tiresome and just odd.

But Saylor could also be inspiring, generous and loyal. He rarely fired people. "You had to really underperform at MicroStrategy to get fired," said Manish Acharya, who left the firm in early 1999. He recalls firing someone with Saylor -- and how Saylor spoke of being "traumatized" for days afterward.

Saylor's loyalty was returned: MicroStrategy's turnover rate -- about 7 percent in 1997 and 1998 - - was low among software companies. With only moderate irony, employees would dub themselves members of the "cult of MicroStrategy," and Saylor was their charismatic leader. A television monitor in the lobby played a constant loop of Saylor's speeches.

If they bought into his mission, Saylor told prospective employees at the end of their boot camp sessions, they could help him "bend reality through sheer force of will." Saylor's boot-camp sermons lasted hours, sometimes up to nine. "Heaven for me is a microphone and a captive audience," Saylor said, and he relished the gamesmanship of sales and motivational talks, "that deer-in-the-headlights moment when you know you've flipped someone," he said in 1998.

"I've never seen someone who could transfix a room like Mike Saylor," said Mark Bisnow, who was an aide to Rep. John Anderson and Sen. Robert J. Dole, and whom Saylor hired in April 1998 to be his personal publicist, or, officially, his chief of staff. Bisnow's mission was, in Saylor's words, to "put me in front of the right people" -- Binky Urban and Robert Rubin, among them. Bisnow ran Saylor's public life as a permanent branding campaign, which seemed about perfect to Saylor.

"I'm a political leader," Saylor declared to Washingtonian's Harry Jaffe in early 2000. "I have a nation. I have constituents. I have investors." Bisnow worked tirelessly on his behalf, calling anyone, anywhere, who might be worth Saylor's seduction. Saylor eventually started calling Bisnow his "secretary of state."

Others called him worse. Several MicroStrategy executives and board members complained -- usually privately -- that Bisnow had become an unchecked agent of Saylor's ego. One Washington technology chief called Bisnow "Michael's crack dealer," feeding Saylor's addiction to attention.

"If he ever had any impulse of restraint, Bisnow would push him back in the other direction," said a longtime MicroStrategy executive who left the company in 2000. Profiles of Saylor included his soliloquies on his ideal wife and the detail that he had a butler, Brian. It was said that Saylor looked like Tom Cruise and dated Queen Noor, King Hussein's widow (whom he says he has never met).

"I was delighted to help the world discover Mike Saylor," recalled Bisnow, who left the company last year. The people who criticized Bisnow at MicroStrategy "complained all the way to the bank," he said.

In late 1999 and early 2000, a recurring source of Saylor's fascination -- and, in turn, the media's -- was his plan to build a "Versailles" on 48 acres in Great Falls. He issued a 100-page request for proposals from architects and sent memos to his public relations staff that outlined some basic features he envisioned for his compound -- rooftop conservatory, nine-hole golf course, Japanese gardens. He referred to the compound as "my 21st-century villa," though Bisnow cautioned him that the term "villa" connoted the Italian leisure class, not the intellectual renaissance he was now leading.

"Mike let himself become this image that kept feeding on itself," said his friend, America Online co-founder Jim Kimsey. "After a while it's drinking your own bathwater. After a while it became hubris."

'Hey, Mike, You're Rich'

Saylor had lived a sheltered life: He spent his teenage nights eating ice cream at Friendly's and lifting weights in his garage with his best friends, Griffith and Tom Spahr, who would later join him at MicroStrategy. They played board games and dabbled in Dungeons and Dragons. "Mike was always the Dungeonmaster," Spahr recalled, referring to the player who controls the game. "He liked to create and control situations."

When Saylor arrived at MIT, he had never eaten Chinese food, owned just one suit (beige polyester) and sported a frizzy thin mustache. He confined his friendships mostly to his fraternity, Theta Delta Chi, and had few girlfriends in college or afterward. "Michael recently decided women are an incredible time sink," Bansal told The Post in 1996.

Until recently, Saylor almost never drank. On the eve of his IPO, aboard a Gulfstream II, MicroStrategy Chief Financial Officer Mark Lynch offered Saylor a celebratory glass of Blue Ribbon Scotch from a \$160 bottle. Saylor declined, put the glass aside, took a few sips of champagne and devoured two pink Hostess Sno Balls.

After a day of meetings in New York in January 2000, Saylor and Bisnow went to the bar of the Four Seasons hotel only to find a 45-minute wait for a seat. They turned to leave when Bisnow said, "Hey, Mike, you're rich, why don't we do what they do in the movies, hand the maitre d' a big tip and see what happens?" Bisnow handed the guy a \$20 bill and the men were seated.

Around that time, Sen. John F. Kerry (D-Mass.) and his wife, Teresa Heinz, invited Saylor to a private dinner at their Georgetown home. Saylor was flattered that a U.S. senator would care to hear his grand ideas, and when Bisnow mentioned that Kerry might also care about his bank account, he seemed surprised. After the dinner, Saylor was asked by a Kerry aide to host a fundraiser, which he did, despite tending toward conservative views and being a lifelong admirer of George Will.

Saylor was always impressed by wealth, not so much for what the money could buy -- although that was enviable too -- but for the power, credibility and status that came with it. "When you're worth a certain amount, you get the attention of everyone in the room," Saylor said in 1998. In preparing for MicroStrategy's IPO that year, Saylor offered to sell "friends and family" stock --

coveted shares that are usually reserved for company insiders -- to a special class of people he dubbed "influencers." These were the top executives at about 200 nationally known firms, carefully selected by Bisnow. About 5 percent of these "influencers" accepted the shares, according to a source familiar with their apportionment.

As Saylor's celebrity and wealth grew, he gained entry into increasingly rarefied Washington circles. He attended several of President Bill Clinton's functions, often arranged by Democratic fundraisers such as Beth Dozoretz. At one reception for Clinton at the Georgetown home of financier Jonathan Silver, the president called on him during a question-and-answer session and Saylor launched into an extended talk about how technology made it possible for every American to carry a panic button, a kind of wireless 911 device. With the proper resources, Saylor said, the government could "significantly cut rape and violent crime." Clinton asked Saylor to send him a memo on the subject, but he never heard back from the White House.

The Wonder Boy of the Club

Most of Saylor's powerful new friends came from the burgeoning club of Northern Virginia entrepreneurs said to be transforming Greater Washington from a plodding government enclave into a hotbed of new money and industry. The members included, among others, Joe Robert and James Kimsey, financiers Mark Warner and Russ Ramsey, and entrepreneurs Mario Morino and Jonathan Ledecy. Saylor sought out their companionship and advice at black-tie functions and private dinners. He recruited Ledecy to join the MicroStrategy board and, later, John Sidgmore, the vice chairman of WorldCom. Saylor spoke of the importance of being a good member of the community and of surrounding himself with mentors.

In return, Saylor was embraced as the oddball wonder boy of the local technology sector. "He was sort of adopted as a pet, a curiosity," said one wealthy local entrepreneur, a friend of Saylor's. In late 1999, Saylor joined Robert, Kimsey and others on a Caribbean cruise on a 165-foot boat belonging to Hollywood super-agent Mike Ovitz. One afternoon, after drinking tequila shots the night before, Saylor went scuba diving and became sick, vomiting his lunch and inciting a feeding frenzy by a swarm of tropical fish. A few weeks later, Kimsey bought Saylor a bottle of fish food for his birthday.

In time, Saylor became weary and suspicious of several of the local multimillionaires who had become his friends. The more successful he became, people at MicroStrategy recall, the more Saylor would speak of how much smarter and more creative he was than the other younger entrepreneurs he was often grouped with. He began to tune out many of the "mentors" he had cultivated, confiding to at least two friends that AOL co-founder Steve Case was the only person in the Washington tech community whom he considered a peer. (Saylor says that this might have characterized his views at various points in the late 1990s, but that he has since become more humble and less judgmental)

As MicroStrategy's share price catapulted ever higher, Saylor became fixated by it, checking several times a day. He knew precisely where the stock had to go for him to be a billionaire, or 10-billionaire. Saylor looked to investors not just for money but for a kind of intellectual ratification. He believed in the stock market's "qualitative ability" to anoint visionaries. "In the marketplace, Nasdaq is the god," Saylor said.

On the days his stock fell, Saylor was more prone to piqueish fits of micro-management. One day in December 1999, Joe Payne, MicroStrategy's vice president of marketing, was flying out of

Dulles International Airport on a family vacation when he received a call from Saylor on his cell phone. "You're causing corporate death," Saylor said acidly and asked why a press release announcing a new partnership agreement had not been issued. Payne explained that the new partner was not ready to announce the agreement.

"Well," Saylor said, "it's causing corporate death. The stock is down today. And the reason the stock is down today is because we haven't gotten that press release out."

When the stock rose, Saylor was not good at the practiced indifference that CEOs are supposed to evince, especially in front of their employees. Instead, he would casually walk around the office talking about how many paper millions he'd just made as he ate lunch.

There was an honest ebullience about him that was at once crass and refreshing. On MicroStrategy's annual staff cruise in January 2000, shares rose 19 percent in a single day, and all 1,600 employees were in the Cayman Islands! "We should go on cruises more often," joked Saylor, who made nearly a billion dollars that day, the dot-com fantasy in a nutshell.

Except that Saylor despised the notion that MicroStrategy was comparable to some dot-com-lately, like he was some newly minted MBA starring in an online toy store. This, he felt, ignored his company's 11-year track record, its profits, his huge vision. His was not an "Internet company," he said, it was an "intelligence company."

"In defense of those who were appealing to Michael's egomania, he was several cuts above the dot-commers," Bisnow said. "He had a very solid business software company. And he had these incredible gifts. He could ultimately will be."

Seizing a Halo have been someone very memorable, for reasons other than why he

MicroStrategy could have continued as just a "very solid business software company." But that would not have made Saylor memorable, much less historic. So it became clear to Saylor that for the recognition he felt he deserved, he had to be part of Wall Street's love affair with the Internet. "We were second-class citizens here," Saylor recalled of MicroStrategy's status as a mere "software" company. "And time was running out. We needed to get into that halo box."

This meant trumpeting how his company would thrive in the online world, how Internet and wireless networks could spread freshly mined information "everywhere." He launched a subsidiary, Strategy.com, that delivered information not to businesses but directly to consumers: weather updates, traffic reports, sports scores via phone, Internet or wireless tools.

Of course it was just a start in the context of the larger dream Saylor was peddling: One day soon, he promised, people would have devices in their ears that would tell them how to avoid clogged highways or incompetent heart surgeons or dangerous neighborhoods. Such intelligence would circulate "everywhere," cleansing waste, inefficiency and risk from our networked ecosystem. It sounded slightly nutty, but when Saylor was preaching, it could sound oddly imminent, too.

On Jan. 27, 2000, MicroStrategy announced that its revenue for 1999 would be \$205.3 million, nearly double the previous year's. Saylor announced the company's 16th consecutive quarter of revenue growth and a profit of \$3.8 million. The new numbers solidified his cachet as an Internet visionary who could actually make money. He was profiled on "60 Minutes," in Time and

Newsweek (headline: "Caesar and Edison and . . . Saylor?"), and the framed press clippings he hung in his basement began to trail up the staircase and into the first floor of his house.

Shares of MicroStrategy jumped from \$225 to \$246 on March 7. The price continued upward as Saylor, Mark Lynch and Nick Weir, the head of Strategy.com, began their roadshow in Europe. Investors in London, Geneva and Paris begged to buy the increasingly pricey shares. The stock closed that Thursday, March 9, at \$283.

On Friday, Saylor, Lynch and Weir flew back to Washington, with plans to begin the U.S. leg of the roadshow on Monday. On the people mover at Dulles, they checked messages and learned that shares of MicroStrategy had jumped another 30 points. The stock closed that day at \$313 after hitting \$333 in the early afternoon. Saylor had made another \$1.3 billion while he crossed the Atlantic. He was now worth \$13.6 billion.

"Do you ever get the feeling things are going just a little bit too well?" Saylor said to Weir as Saylor stepped into his waiting limousine.

"Yes," Weir said, "and it scares the hell out of me."

At the Height of a Joy Ride, MicroStrategy Dives

Michael Saylor, the founder and CEO of the bull market sensation MicroStrategy Inc., was enjoying a sunny weekend at his home in Vienna. His paper fortune had just hit \$13.6 billion, which was \$4.5 billion more than it was the previous weekend and \$6.2 billion more than it was the weekend before that.

But that Sunday, March 12, 2000, the company's chief financial officer, Mark Lynch, received a call at home from Warren Martin, a partner at PricewaterhouseCoopers, MicroStrategy's financial auditors. Martin told Lynch that the firm's national office was reviewing three large contracts that MicroStrategy had booked the previous fall. Could MicroStrategy possibly delay the \$2 billion stock offering it had planned for later that month? Martin asked.

Impossible, Lynch replied. The company had already begun its roadshow, the tour that leads up to a stock offering in which top executives pitch their firms to big investors in several cities. Martin told Lynch he would get back to him.

Lynch explained the situation to Saylor the next day during a roadshow stop in Philadelphia. Saylor was unconcerned at first. He assumed that Pricewaterhouse's past approval of MicroStrategy's financial statements would insulate the company from having to revise its numbers. "Please make this go away," Lynch told Saylor, and Saylor went back to what he loved most, delivering evangelical pitches for MicroStrategy.

In early 2000, investors were falling heavily for "Mike's Come-to-Jesus speech," as some MicroStrategists called it. And they were not the only ones hearing his ever more sweeping declarations. "I think my software is going to become so ubiquitous, so essential, that if it stops working, there will be riots," Saylor told the New Yorker's Larissa McFarquar in an article that appeared that March. "I mean that literally. I mean that people will die this year because they didn't buy my software."

Friends and aides warned Saylor to tone down the rhetoric, telling him he risked sounding offensive or ridiculous. His staff and MicroStrategy's board members reminded him to stay focused on business "fundamentals" -- operations, finance, customer service. But Wall Street was the oracle that Saylor heeded the most, and he relied heavily on Lynch to please it.

Lynch, then 37, was affable, soft-spoken and well liked at MicroStrategy. With a sheepish, Woody Harrelson-like disposition, he was viewed as a sort of everyman ambassador to the volatile Saylor. He was one of the few people in the chief executive's inner circle who did not talk like a whiz kid or boast an MIT or Ivy League pedigree. Lynch, who attended Penn State University, worked hard, avoided confrontation and was one of the few outside executives who succeeded at MicroStrategy, largely, in the words of one insider, "by being a good soldier."

Lynch was also gifted at "managing Mike." This meant he could steel himself from Saylor's outbursts and also keep the chief executive happy while he performed his increasingly difficult job. What was clear to anyone inside MicroStrategy was that Lynch was under enormous stress. As the company revised its business model to suit the online mania of the late 1990s, Lynch and his small financial team faced tricky accounting challenges. They were no longer a simple "business intelligence" company that made its money by licensing software to firms that helped them mine their corporate databases for useful information.

Now MicroStrategy's expanded business was more complex. It included Strategy.com, Saylor's fixation, which delivered information such as weather updates and sports scores directly to consumers by phone, computer and wireless tools. The subsidiary made deals with companies such as Ameritrade, the online brokerage that used MicroStrategy's software to relay stock quotes to its customers. MicroStrategy could no longer account for every deal as a straight-forward, one-time transaction. Once-simple questions about how and when to account for sales were opened up to interpretation.

Quietly, and over several months, people within MicroStrategy had raised questions about the company's accounting methods. Some midlevel officials who came to work at the company from larger software firms such as Oracle or Sybase were amazed at how much revenue MicroStrategy was able to book up-front. While a deal might span for several years, MicroStrategy would often take credit for a large proportion of the money at the start.

Likewise, the audit committee of MicroStrategy's board of directors -- Ralph Terkowitz, a vice president of technology at The Washington Post Co., and Frank Ingari, chief executive of Wheelhouse Corp. -- had repeatedly expressed dissatisfaction with the quality of Pricewaterhouse's reviews of its books. Terkowitz and Ingari met regularly with Lynch and Warren Martin. Terkowitz and Ingari told Martin that Pricewaterhouse's quarterly audits seemed sparse and undetailed, board sources said, especially given the mounting revenue that MicroStrategy was recording.

Each time they complained, Martin reassured Terkowitz and Ingari that the accounting was "accurate and conservative."

Saylor said later he was never made aware of the audit committee's concerns about Pricewaterhouse's work. But suspicions about MicroStrategy's accounting had also entered the public domain. In November 1999, the Center for Financial Research and Analysis, a Rockville firm that studies corporate financial statements, issued a report that expressed "concern about the quality of MicroStrategy's September quarter revenue and earnings" as well as "the timing of

revenue and income recognized in the September quarter." Then, a brief article by David Raymond in the March 6, 2000, Forbes magazine cast suspicions about three deals that MicroStrategy had recorded in the third and fourth quarters of 1999.

None of this particularly troubled Saylor. Warren Martin had approved everything, after all. Nor did the skeptics seem to bother Wall Street -- indeed, MicroStrategy's stock price jumped \$21 on the issue date of the Forbes piece. And Saylor was feeling emboldened. "I feel that if I don't succeed," he was quoted saying in the New Yorker, "it's an abomination in the eyes of God."

An Urgent Message

Continuing the roadshow, Saylor and Lynch arrived at the Ritz-Carlton Hotel in Houston late Monday night, March 13. Lynch had a message waiting from Martin when he checked in: Call him back at 10:30, East Coast time, the message said. He would be his office.

Worried by the urgency of the message, Saylor and Lynch called Martin together from Saylor's suite. Martin put John Dirks, the head of Pricewaterhouse's national technology practice, on the phone. Dirks, whom Saylor had never met, said he had reviewed some contracts booked in the previous quarter and concluded that the original accounting had been done incorrectly. Saylor's face became red.

"We believe it would be appropriate for us to retract the previously audited financial statement of December 1999," Dirks said, according to a source familiar with that conversation. He suggested that MicroStrategy issue a press release announcing it would be restating its revenue figures from the previous quarter.

Dirks focused on a large deal that MicroStrategy had struck the previous fall with NCR Corp, a computer equipment and services firm. MicroStrategy sold \$27.5 million worth of software and services to NCR for NCR to "resell" to its own customers. As part of the transaction, MicroStrategy agreed to pay \$25 million in stock and cash to NCR for one of its business units and a data warehousing system. Some stock analysts saw the deal as a virtual revenue wash, but MicroStrategy still issued a press release on Oct. 4, 1999, hailing its "52.5 million agreement with NCR." MicroStrategy recorded \$17.5 million in sales from the NCR deal in the quarter that ended that Sept. 30. NCR accounted for the deal in the following quarter.

Without that \$17.5 million, MicroStrategy's revenue for the third quarter would have dropped nearly 20 percent from the previous quarter, instead of growing by 20 percent. It would have reported a loss of 14 cents a share instead of a profit of 9 cents. And it would have fallen well below Wall Street's expectations, making it unlikely its stock price would have risen as much as it did the following month, when Saylor and a group of company insiders sold shares at a collective value of \$82 million.

The firm's accountants had approved MicroStrategy's financial statements until as late as Jan. 26, 2000. They were acting now, they privately told MicroStrategy officials, in response to the Forbes article, which had examined the NCR deal in detail. Citing an ongoing client relationship with MicroStrategy, Pricewaterhouse refused to respond to several written questions for these articles. Dirks and Martin also declined to comment through Pricewaterhouse spokesman Steven Silber.

"Wait," Saylor said to Dirks and Martin, his voice cracking, "you guys signed off on this." If MicroStrategy issued a press release, he said, "there will be a collapse of confidence and trust in our company that will cause great collateral damage."

Everyone agreed to talk again the next morning. Lynch bought cigarettes, and neither he nor Saylor slept that night.

At midnight Washington time, Saylor and Lynch called the Arlington home of MicroStrategy's chief counsel, Jonathan Klein. This set off a flurry of sleep-jangling calls between Klein, other MicroStrategy attorneys, executives and members of the company's board of directors.

On the Road Again

Late on Tuesday, Lynch returned to Washington to join a group of MicroStrategy accountants, lawyers and board members who were meeting with Pricewaterhouse. Saylor continued his roadshow, except for a trip back to Washington where he announced that he would spend \$100 million of his own money to start a free online university, a plan that was previewed on the front page of The Washington Post.

Back on the road, Saylor would call Klein in Washington after every pitch for updates. The meetings centered on small computations, arcane rules and subjective analyses, but Saylor told his executives they were really about something else: "Whether we live, or whether everything will end."

Lynch slept a total of eight hours over those five days. The numbers they discussed fluctuated widely.

On Sunday, March 19, at 4 p.m., MicroStrategy's board of directors, made up of many of the prominent local businessmen Saylor had cultivated during his rise, convened around a large table in a 14th-floor conference room of the company's Tysons Corner offices. In addition to Saylor, Terkowitz and Ingari, the board included Worldcom Corp. Vice Chairman John Sidgmore, who had joined the board a week before, entrepreneur Jonathan Ledecy; and MicroStrategy co-founder Sanju Bansal. The board voted to issue an accounting restatement the next day.

At the end of the day, they were joined by top company executives, lawyers and a crisis public relations team that was brought in from New York. "It will be a PR victory for us if our stock doesn't drop 100 points tomorrow," Ledecy said.

But Saylor grew more frustrated by what he was hearing. He became especially agitated with Ralph Ferrara, a securities law expert from the Washington office of Debevoise & Plimpton who spoke to the board about the accounting problems. As Ferrara was making a point about the possible ramifications of the restatement, Saylor cut him off, according to two sources who were in the room. Saylor told Ferrara that none of the information he was providing was new to him.

"If you know all this," Ferrara snapped back, "then you've ruined your company."

Stunned, Saylor remained silent for several minutes while Ferrara continued, sources recalled. Saylor, who does not remember this specific exchange, said he never acted in any way that would have "ruined the company," and if Ferrara had accused him of it, he would have responded immediately.

After Ferrara continued for a few minutes, the sources said, Saylor began banging his palm on the table in boredom. He said Ferrara was lingering on unimportant detail and he told him to move on to the next item. "Michael, my D and O [directors and officers] insurance only covers me up to \$15 million," Leducky said, glaring at Saylor. "After that, they come after my own assets. So I want to hear this." Saylor's eyes bulged, he went silent again and Ferrara continued.

Saylor recalls the tension in that meeting to be a result of "our company heading into a horrifically difficult period." Up until six days before, he added, "everyone told me I was doing a perfect job."

As midnight approached on March 19, Saylor called his family to inform them of the announcement to come. He spoke longest to his mother, Phyllis Saylor, the dominant figure in Michael's life. She doted on her son, and friends said Saylor often credited her with instilling a belief that he could "do great and enormous things."

"There's gonna be a lot of bad publicity," Saylor explained to his mother, who had recently accompanied her son to the White House millennium party. "People will write bad things about me."

"I loved you when you were a paper boy and a \$30,000-a-year engineer," Phyllis Saylor reassured her son. "And I'll love you just as much tomorrow."

Hate Mail

The angry messages started as soon as Glenda Thomas, Michael Saylor's executive assistant, arrived at work the next morning, March 20. Hate mail, electronic and hand-delivered. "I hope you burn in hell" phone calls. Profane threats against her boss that brought tears to Thomas's eyes.

MicroStrategy had issued a press release at 8:06 a.m. announcing its restatement. Instead of claiming a 1999 profit of \$12.6 million, as it had previously announced, the company now said it would show a loss of about \$34 million to \$40.3 million. Revenue for that year, previously reported at \$205.3 million, would be reduced to "between approximately \$150 million and \$155 million." The company also reduced its 1998 revenues from \$106.4 million to "between approximately \$95.9 million and \$100.9 million."

Saylor held a conference call with stock analysts just after 9 a.m. Six employees crowded into the office of Sid Banerjee, MicroStrategy's vice president for worldwide services to listen on a speaker phone. Banerjee charted MicroStrategy's share price on Yahoo's financial Web site. Every few minutes, while Saylor spoke, Banerjee pressed the "refresh" button on his browser; and every few minutes, Banerjee would see that the stock had dropped by another double-digit dollar amount.

Saylor remembers little about the day. He did interviews, about 20, his face filling office televisions next to a diving graph line of his company's share price. By the time the markets closed, MicroStrategy's shares had lost 62 percent of their value -- dropping from \$226.75 to \$86.75. The public stock offering was postponed, so was a planned share split. Five class action lawsuits were filed. Shareholders lost a collective \$11.1 billion.

At 4:01 p.m., Saylor received a digital page from a Strategy.com stock service: "Hello, Michael," it said. "Your portfolio is down \$6.1 billion."

Gallows Humor

Saylor figured the trouble would blow over quickly. Privately, friends said, he was both angry, mostly at PricewaterhouseCoopers, and quick to play down the company's culpability for the restatement. He resisted the gallows humor that swept the company's hallways and e-mail network. When an employee showed him the front page of the March 21 New York Daily News, a close-up of Saylor's with the headline "LOST \$6B IN A DAY," Saylor did not smile.

One Sunday a few weeks later, Saylor called about 30 of his top executives to a meeting in a basement conference room at the McLean Hilton. He said he was determined to keep growing, keep hiring people and keep pumping resources into Strategy.com, an increasingly unpopular service within the top ranks of the company given how expensive it was to run.

There was growing sentiment to refocus on MicroStrategy's core business of "business intelligence software," which was bringing in most of the revenue. For months, a few executives had been referring to Strategy.com as "Mike's pet," while others simply called it his "dog." But Saylor clung to Strategy.com, symbol of big possibilities and key to Wall Street's bestowing him the dot-com halo he so coveted.

Saylor's overriding message at the Hilton was that the restatement was trivial and that everything would settle back to normal. But many "constituencies" were not cooperating, especially the media, where Saylor's pumped-up image was suffering a harsh deflating. He began devoting more time to managing public relations. He spoke of the press in increasingly Nixonian terms. "Our enemies SHOULD NOT own our news ticker," he wrote in a May 18, 2000, e-mail to several members of his marketing and public relations staff. "I need you guys to fix this. Issue one press release per hour if you must."

"When we let negative press releases pile up on that ticker," he wrote in another e-mail that day, "we are allowing those who would see us fail clogg [sic] our arteries and attach weights to our limbs."

But it was becoming clear to Saylor that the unpleasantness would not be short-term. Lawyers were everywhere. There were class action attorneys, smelling fresh kill, as they often do when companies suffer huge stock losses after a tacit admission of past errors (in this case, MicroStrategy's restatement). Lawyers for the Securities and Exchange Commission began to snoop.

MicroStrategy retained an A-list cast of Washington lawyers to defend it, among them Ferrara and Brendan Sullivan of Williams & Connolly. Saylor was represented personally by Harvey Pitt of Fried, Frank Shriver and Jacobson -- and, according to a filing with the SEC, Saylor's personal legal representation cost the company \$1 million in 2000.

Bansal was represented by Neil Eggleston, formerly of the Clinton White House, and Lynch by Bruce Baird of Covington & Burling. Robert Fiske, the former Whitewater prosecutor, represented the outside board of directors. There were scores of other private lawyers to go with MicroStrategy's own in-house lawyers. The free-wheeling cult of MicroStrategy had lawyered up.

Everyone seemed suspicious, choosing words carefully with old friends. Press releases were vetted, sometimes for days. If information was flowing at all, it was behind doors. Board meetings, several of which occurred in the days before and after March 20, became more heated. This was a change from prior meetings, which Saylor tended to dominate. Saylor was bluntly urged to bring in more experienced help.

There was concern that certain executives, particularly Lynch, were in way above their depth and experience, especially given the company's mounting financial troubles. Several members of MicroStrategy's board and legal team were pushing Saylor to fire Lynch immediately. But Saylor resisted, believing that the board just wanted to do something to make itself look tough.

There were practical reasons for Saylor to keep Lynch. One was that to hire a new chief financial officer and educate him about MicroStrategy's finances would take months, but MicroStrategy had just a few weeks.

By April 13, it was due to file with the SEC its "10-K" financial form, which would include extensive details about its restatement. If the company failed to file it, Nasdaq could "de-list" the company, or no longer include it on its exchange. Lynch, who told Saylor he would do whatever he wanted him to do -- including resign -- worked 80-hour weeks from mid-March to mid-May. He resumed smoking and lost 10 pounds.

In a board meeting that Spring, Saylor asked the board if they had "lost confidence" in his ability to lead the company, sources close to the board said. No, was their answer, but they had reservations, concerns that only mounted through the summer.

But ultimately, any move to remove Saylor would have been moot because the chief executive held more than 75 percent of the voting power on important company decisions. Board members were essentially advisers, powerless to make him do anything he didn't want to do. This contrasted with another "constituency" that Saylor feared could "torch the whole thing:" the SEC.

Once Defiant, MicroStrategy Chief Contritely Faces SEC

Shortly after March 20, 2000, the worst day of Michael Saylor's life, one of his blue-chip Washington lawyers, Brendan Sullivan, promised him that everything was about to get worse.

This was just after MicroStrategy Inc., the company Saylor led, had been forced to issue a "restatement" of its recent financial records, effectively turning two years of profits into two years of losses; it was after the company's stock price fell from \$226.75 to \$86.75 a share in a single day of trading.

"This is going to be like getting on a raft at the top of the Grand Canyon," Saylor recalled Sullivan telling him. "You're going to go all the way to the bottom and you're going to hit rapids every step of the way. And you just gotta hold on."

Still, Saylor was defiant, even after MicroStrategy's shareholders lost a collective \$11.1 billion in a single day. "Mother Teresa never quit during a down quarter," he told Reuters on March 20,

"and what we're doing is just as important." He maintained that MicroStrategy's mistakes had been negligible. He told friends that his company had been the victim of "bean-counter sophistry" from its auditors, PricewaterhouseCoopers, and from the "jackals" in the press.

But there was something Saylor feared – the Securities and Exchange Commission. Its chairman, Arthur Levitt Jr., had placed a high priority on scrutinizing corporate accounting standards, especially for the fast-growing technology firms. To have an SEC investigation pending for months, or years, can kill a young firm, especially a cash guzzler such as MicroStrategy, which needed to raise money in the aftermath of its aborted \$2 billion stock offering. The SEC, Saylor would say in his preferred "Star Trek" parlance, could "vaporize us."

On April 13, MicroStrategy announced that the commission had begun an investigation into its accounting practices. The same day MicroStrategy also disclosed that it had overstated revenue for the previous three years, not just two.

Nearly all SEC investigations end in a settlement. But just the idea of it ran counter to Saylor's natural impulse to fight. His attorneys warned that fighting was a bad idea if he wanted to keep control of his company; MicroStrategy's fate and that of its founder, they said, would depend largely on Saylor's ability to abide compromise and show contrition. Whether that was possible was not yet clear.

The SEC had a team of five lawyers and two accountants working on the MicroStrategy case. It was led by Gregory S. Bruch, a Stanford-trained investigator, who is described by a former colleague as an "aggressive do-gooder" determined to "teach lessons in the interests of public good."

Bruch (pronounced "Brew"), a former Eagle Scout from Independence, Mo., often expressed bemusement at the arrogance of the new-technology zillionaires of the period. During the MicroStrategy investigation, Bruch read many of Saylor's internal e-mails and was amazed at some of the things that seemed to preoccupy the entrepreneur: finding the right person, for example, to compile his speeches and ideas and write a history of the company.

Explanation Questioned

After the restatement, Saylor's explanations of MicroStrategy's accounting problems began to sound increasingly dubious to many of his own executives. In the first weeks after March 20, executives recall, Saylor had relied on a simple, two-pronged excuse: "Software accounting is complicated" and "The auditors were signing off." But many people within MicroStrategy were beginning to think the company was wrong, at least on the timing issue – the easy-to-discern notion that company officials had counted certain deals in quarters that they knew had ended when the deals were signed.

Saylor himself was on record as saying he knew the practice was wrong.

"There's a difference between 11:59 and 12:01, the last day of March," Saylor said in a Washington Post interview in June 1999. "One of them is you go to jail if the thing gets signed at 12:01 [and you record it the day before]. One of them is the stock is up \$500 million and the other one is you've just torched the life and livelihood of a thousand families."

It had become apparent, largely through statements from some MicroStrategy customers in the press, that the company had made a practice of "turning the clock back" at the end of certain quarters. Or it was operating by a flawed clock. Either way, not everything could be blamed on PricewaterhouseCoopers.

While his attorneys, particularly Jonathan Klein, the company's general counsel, told Saylor to stop talking to the press, Mark Bisnow, the Washington political veteran who became Saylor's personal publicist, told Saylor that candid apologies would be his best strategy and the quickest route to rehabilitation.

Bisnow cited the example of Sen. John McCain (R-Ariz.), who was then challenging George W. Bush for the Republican presidential nomination. After McCain was tainted in the Keating Five scandal of the early 1990s, he transformed himself into what Bisnow called "the gold standard of integrity." McCain achieved this by repeatedly admitting his mistakes, Bisnow said.

"Everyone knows you're brilliant, but the one thing everyone comments on is your need for humility," Bisnow wrote in an e-mail to Saylor in April 2000. "A lot of people, especially in the high tech industry, know that accounting issues are complicated. . . . Now is the time to show that this is a time of great education for you, that you are prepared to emerge a new person from this experience."

Saylor enjoyed the McCain parallel, Bisnow said. But Bisnow became frustrated that Saylor ignored the part about admitting wrongdoing. Saylor himself said he never felt the comparison was fully "appropriate" to his own situation.

Saylor saw himself as an outsider snared by the Washington culture. "I come from a naive, sort of a lower-middle-class family," he said later. "I didn't understand the media. I didn't understand politics. If I were a Kennedy, I would get it." He told one associate that "Janet Reno would not rest" until she indicted him.

Before appearing at a shareholder meeting that June, Saylor became furious at a speech that had been prepared for him by MicroStrategy's vice president of marketing, Joe Payne. The speech had a penitent tone and included an apology to shareholders.

"I'm not saying this," Saylor said to Payne, shaking his head. "It makes it look like I did something wrong."

But Saylor read the speech verbatim, in a flat monotone like a hostage forced to speak on TV. Shares of MicroStrategy jumped \$3.88 that day, closing at \$42.44.

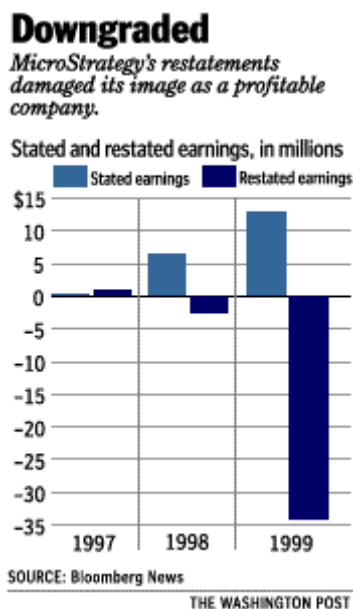
Running Out of Cash

Meanwhile, his company was running out of cash. Within a few weeks of MicroStrategy's restatement, the company fell out of compliance with the conditions of a credit line it held with Bank of America. This forced Saylor to personally guarantee the terms of the company's lending, an unusual move by a chief executive, and also a sign of Bank of America's unease with MicroStrategy's financial status. The previous fall, Saylor had liquidated \$42 million of his stock assets – his only personal stock sale to that point. The sale provided a thin cushion for MicroStrategy, which needed \$6 million just to meet its payroll every two weeks, according to a company source.

Saylor, despite his enormous stock holdings, was vulnerable to personal bankruptcy unless the company could raise money fast – and ongoing SEC investigations are no selling point.

In June, MicroStrategy sold about 4 percent of its outstanding shares and accepted a \$125 million investment from a group led by Promethean Asset Management LLC of Chicago. But the Promethean investment hurt MicroStrategy in the long-term because of a provision that allowed Promethean to gain more shares if the company's stock price dropped after the purchase date – which it steadily did. In investment circles, such provisions have been called "death spirals" because a firm's stock price often falls after taking on such financing, and as the price drops, the company has to issue more stock. MicroStrategy was eventually forced to renegotiate the deal.

But in June 2000 the Promethean deal provided MicroStrategy with a temporary life jacket. Saylor, however, was increasingly scared for his job.



Bruch was convinced that MicroStrategy's top executives should be held responsible for the accounting problems that led to the restatement of results. "This was not a case of incompetence," Bruch said in an interview, referring to Saylor, MicroStrategy co-founder Sanju Bansal and Chief Financial Officer Mark Lynch. "These were not bumlbers. They're smart guys. If there were errors made, you expect there to be a random distribution of errors. It wasn't." Rather, he said, there were consistent "errors" made in the company's favor.

Beltway securities lawyers tend to be an incestuous group, often moving freely between the SEC and private practice. A prime example is Harvey L. Pitt. Pitt represented Saylor before the SEC and is now its chairman. Ralph Ferrara, a securities law expert who represented the firm and had shared an office with Pitt at the SEC in the 1970s, also interviewed with the White House for the job, according to sources familiar with those discussions.

Unlike many dealings between competing legal interests, SEC and private lawyers are often cooperative. A company's legal team will conduct an investigation of the firm it is representing, then present its findings to the SEC. A lawyer's credibility with the SEC is vital, especially because the attorney could be working with the agency, or for the agency, again.

Between April and June of 2000, Bruch and Ferrara oversaw parallel investigations of the company. They scrutinized several years of MicroStrategy documents – filings, contract drafts, memos and, most compellingly, e-mails. The most incriminating were from Lynch, who would use terms like "scorching the earth," often in response to pressure from Saylor to achieve "maximum results," said an SEC source who had viewed the e-mails.

In June, Ferrara and his partner John Tuttle met with Bruch to discuss their mutual findings. In the following weeks, the parties held a series of discussions about settling the case. Ferrara argued – and Bruch became convinced – that barring Saylor and Bansal from the company would probably kill it and would only hurt shareholders more. Still, Bruch was prepared for a long fight, even though it was far from certain that he could win a case against the three executives if it went to trial. PricewaterhouseCoopers' role would be a "litigation risk," he said in an interview, meaning that a jury would be likely to view the accounting firm's advice as a mitigating factor in assessing MicroStrategy's guilt.

As he negotiated with Ferrara, Bruch asked variations on the same question: "How do I get comfortable leaving these guys in here?" A recurring point of contention involved a single word: "fraud."

SEC officials believed this was a case of fraud, while Ferrara argued against including the word in the SEC's complaint. Bruch used a favorite term whenever Ferrara threatened to refuse a settlement that included a fraud charge. "If you do that, then we'll unleash the hounds," Bruch would say, meaning that the SEC would expand the scope and tone of the investigation, and that could take years.

As it turned out, Ferrara was able to avoid a charge of fraud against the company – but not Saylor, Bansal and Lynch as individuals. This was an important point for Ferrara. If the company had been cited for fraud, it would have become even more difficult for MicroStrategy to raise money. The company also agreed to add an experienced outsider to the audit committee of its board of directors – something it had said it would do before, but never had.

But before he agreed to anything, Bruch needed Saylor, Bansal and Lynch to answer detailed questions about how the accounting fiasco happened. They needed to explain the fine print of some of their contracts, what they meant by certain colorfully worded e-mails. "I need to be convinced that these guys "get it," Bruch told Ferrara.

Saylor, Bansal and Lunched each had his own counsel, his own concerns and his own grievances: Bansal felt unfairly targeted, given that his main charge at the company was to bring in deals, not record and account for them. Lynch said he felt squeezed between Saylor's ambitious revenue demands and PricewaterhouseCoopers' willingness to approve the company's numbers.

Saylor complained in various private forums about Lynch, saying things like "My CFO didn't do his job," or that Lynch was "too aggressive." But he was also worried that Bansal and Lynch could quit, breaking up their circle and opening up the possibility of lawsuits between them that could further damage the company.

Bruch insisted that Saylor, Bansal and Lynch had to sign on to the final settlement together. Lynch was the most conflicted, but in the end all three agreed. The contours of a deal were set that would allow Saylor to keep control of his company, but with a big qualifier: He would have to explain to the SEC that he understood his company's mistakes and how they had happened.

On the night before his appearance before the SEC in November 2000, Saylor went home early, around 8 p.m. He called his mother. He tried to soothe himself, sat down at his piano and played Beethoven's Moonlight Sonata.

Questioned at SEC

The next day, Pitt told lawyer jokes as he and Saylor rode in a Lincoln Town Car to the SEC. Saylor kept taking deep breaths and worried about his ability to remain disciplined and contrite over several hours. In the commission's basement hearing room, Pitt sat on Saylor's left, Ferrara on his right.

Pitt, undeterred by a "No Eating" sign, spread out a smorgasbord of Diet Cokes, bottled water, fruit, sandwiches, chips and a five-pound tin of deluxe nuts, which he offered to everyone in the room.

Across from them were the seven SEC officials who had worked on his case. Bruch sat in the middle, flanked by Laura Josephs, a seasoned investigator, and Jay Balacek, a former Harlem beat cop. Josephs, sick with pneumonia, asked general questions to start, then drilled down to the fine points of contracts and internal e-mails. Her questions came in a methodical flurry, interrupted by a hacking cough.

The interview began at 9:30 a.m. and ended at 6:30 p.m. with a 45-minute break for lunch. Sources on both sides said Saylor was deferential and earnest, admitting he had not put the "financial infrastructure" in place to manage a company growing as fast as MicroStrategy. One person in the room described him that day as "almost elfin."

Saylor recapped the story of MicroStrategy, how he always wanted it to be a force for a better civilization and how he was sorry for all the pain he had caused his shareholders. Again and again he apologized, saying that as CEO, he bore responsibility for everything that happened. He asked to be allowed to learn from his mistakes.

As he finished speaking, Saylor's voice cracked and his eyes welled with tears.

Saylor Keeps Job

It could have been an act – SEC officials were fully open to that possibility. Saylor seemed so well-prepped by his lawyers, "like a guy who needed to be trained in how to talk to people as equals," said an SEC source who was in the room. But Saylor had demonstrated the requisite contrition. He gave good answers on small points, didn't stonewall or argue. He could keep his job.

Still, the SEC's findings, issued in mid-December, provided a detailed account of how Saylor, Bansal and Lynch were complicit in manipulating MicroStrategy's financial reports. "Each knew, or was reckless in not knowing, that MicroStrategy's financial statements were materially misleading." At the end of each quarter, the SEC said, "Saylor, Bansal and Lynch discussed, within a range, the financial results they would like to report in the just-ended quarter and whether to forestall recognizing some revenue.

"To maintain maximum flexibility to achieve the desired quarterly financial results, MicroStrategy held, until after the close of the quarter, contracts that had been signed by

customers but had not yet been signed by Saylor, Bansal and Lynch. Only after Saylor, Bansal and Lynch discussed the desired financial results were the unsigned contracts apportioned, between the just-ended quarter and the then-current quarter, and signed by either Bansal and Lynch and given an 'effective date.' In some instances, Bansal and Lynch signed contracts without affixing a date, allowing the company further flexibility to assign a date at a later time."

In other instances, the SEC said, Saylor, Bansal and Lynch knowingly booked revenue from deals before the contracts were signed.

Saylor, Bansal and Lynch agreed to pay fines of \$350,000 to settle the SEC's charges of civil accounting fraud – the largest fines that the SEC had ever levied in a case that did not involve insider trading.

The executives also agreed to "disgorge" a combined \$10 million of what the SEC labeled "ill-gotten gains" on stock sales – \$8.3 million by Saylor, \$1.6 million by Bansal and \$138,000 by Lynch. Lynch, who had already resigned as chief financial officer to become vice president of business affairs, was barred from practicing accounting before the SEC for at least three years.

In agreeing to pay the fines, Saylor, Bansal and Lynch did not admit or deny wrongdoing. Saylor, Lynch and Bansal all declined comment on their SEC settlement.

On the day the settlement was announced, MicroStrategy's stock closed at \$15.38.

'Maybe an Older, Wiser Visionary'

Chastened Wonder Boy Back to Business Roots

In the summer of 2000, Michael Saylor began coming to work late and leaving early. He spent most weekends in the Hamptons. This is not unusual for CEOs in summer, but it was uncharacteristic of Saylor, who rarely went a full weekend without seeing his office at MicroStrategy Inc. and had not taken a vacation since a 1997 trip to London with his mother.

Saylor seemed depressed and withdrawn around the office, repeating platitudes -- "We're working hard, we've got a great team" -- to people he had known for years. He was "totally checked out," one executive said, although given Saylor's fixation with MicroStrategy's "personal intelligence network," Strategy.com, they had become accustomed to operating without Saylor's engagement in the company's main business, data-mining software.

While Saylor seemed increasingly isolated at work, friends said, he didn't like being alone. He always took a small entourage with him when he went to Long Island, filling a time-share Hawker jet with new friends such as venture capitalist Mark Ein, real estate developer John Mason and the occasional MicroStrategy pal like Paul Williams.

Despite MicroStrategy's travails, the summer of 2000 was part of Saylor's ongoing introduction to the moneyed culture. Williams remembers one of the first weekends they spent in the Hamptons. They were visiting friends, walking up a stone driveway to a huge house while a huge American flag waved in a sea breeze over parked Porsches and Mercedes-Benzes. "How did we get here?" Saylor said to Williams. "Do we really belong here?"

As the summer wore on, Saylor became more comfortable in that setting, but something changed. He began to drink, according to friends, who had always known him as a teetotaler.

Alcohol had carried a strong stigma in the Saylor home when he was growing up. His maternal grandfather was an alcoholic.

Saylor said that his drinking should be viewed in the context of his broader personal evolution. "By the summer of 2000, I began taking a more normal view of what a social life should be," he said.

But what was striking to those who knew him was how drinking exaggerated his already outsized personality. Friends said he could be a sloppy, space-taking drunk who nuzzled up too close to people, putting his arm around them whether he knew them well or not.

After attending a party at the home of rapper Sean "Puffy" Combs, in which all the guests were required to wear white, he threw a bash at his home celebrating his own favorite color -- "the black party." He frequented Cities in Adams Morgan and Cafe Milano in Georgetown. At least two MicroStrategy officials received calls from people who were concerned that they had seen Saylor drunk in public, or at least carrying on loudly, and they were worried about how it might look, given the company's very public struggles.

Back in the late 1990s, Saylor would tell his new employees that if they were up to his mission, they could "bend reality through sheer force of will." But as the Nasdaq continued its crash through the end of 2000, and the U.S. economy followed in 2001, reality had become harshly formidable. Longtime employees were leaving MicroStrategy; morale was tumbling, and so was the stock. By the beginning of 2001, shares of MicroStrategy had sunk into single digits. That April, MicroStrategy said it was scaling back plans for Strategy.com, the subsidiary that Saylor had once considered the cornerstone of its effort to deliver "information everywhere."

Unlike many Internet highfliers, MicroStrategy had an established business to fall back on when the bubble popped: The company refocused on data-mining software, tools that cull information from databases so businesses can analyze customer habits and trends.

"I sell carburetors" is how Saylor now describes his work, underscoring the utilitarian dullness of his core product. "If you ask me about my life, I'm going to say this week I worked on Carburetor Version 3. Next year, I'll say carburetor Version 4. It's all about carburetors."

MicroStrategy's annual shareholder meeting last July seemed about three eras removed from the momentous gatherings Saylor hosted the year before, such as the massive Super Bowl party MicroStrategy held at FedEx Field. About 60 shareholders showed up at the Dulles Marriott, slumped on green felt-covered seats in Salons B and C, just off the lobby, next to a training session for employees of Gates Rubber Co. in Salon D.

"We went into the jungle, and the jungle was a pretty ugly place," Saylor told the shareholders. He took questions -- four questions that took 40 minutes to answer. When he finished and thanked everyone for coming and for their continued support, there was no applause.

A 'Wake-Up Call'

Saylor's relations with his board of directors had been deteriorating for several months, culminating last summer, when MicroStrategy's shares dipped below \$4. In one-on-one and group meetings with Saylor, the board -- which included well-known local business figures such as WorldCom Inc. Vice Chairman John Sidgmore and entrepreneur Jonathan Ledecy -- had

criticized Saylor for, among other things, clinging to Strategy.com until it had burned too much money, for refusing to cut staff and for his apparent disengagement from the company.

The July 14 shareholder meeting was a pivotal day. Several people who attended that meeting -- including members of the board -- found Saylor's performance to be lackluster, unfocused and uninspired. He was a very different CEO from the wonder boy who had dazzled so many roomfuls on his way up.

In a heated meeting that followed, the board confronted Saylor about his slipping performance. He was defensive, according to a source close to the board, but he took a clear message from the discussion: The board wanted him to step down as chief executive. He could stay on as chairman, but MicroStrategy needed someone new to lead it day-to-day. Several seasoned candidates were interviewed.

But Saylor refused to relinquish his CEO job to any of them, and there was nothing the board could do about it. Saylor had designed MicroStrategy's ownership structure so that he held complete control of all company decisions. Not only did he own a large majority of the company's shares, but he also insisted that there be two "tiers" of shareholders: Class B shareholders (himself and a small group of company insiders, who received 10 votes on important company decisions for every one share owned) and Class A shareholders (everyone else, who received one vote per share).

The board could have voted to fire Saylor anyway. And Saylor could have then fired his board and brought in a new group. That was viewed as an endgame scenario by everyone, given the signal it would have sent to Wall Street -- at least the part of Wall Street that still paid attention to MicroStrategy. Firing Saylor was never put to a formal vote. One member described the dispute with Saylor and his board as a "Mexican standoff."

In retrospect, Saylor said, the board drama was a "wake-up call" for him to abandon his grandest ambitions. No longer would it be his mission to spread information everywhere. He would take his job more seriously, he said, and "abandon blind hope as a strategy."

Today Strategy.com has been shut down. In systematic layoffs, MicroStrategy's staff has shrunk to 850 (down from a high of 2,400). Saylor has abandoned his plans to write a book, and he has removed the articles about himself that he had framed from his basement wall. They are now stored in his garage, replaced by van Gogh prints. His office, which once included a sculpture of Rodin's "Thinker," is now completely unfurnished except for a pillow embroidered with the words "You never know how many friends you have until you own a home in the Hamptons."

Saylor remains what he calls "household" -- as in a household name -- but largely on the strength of his No. 1 ranking in Fortune magazine's "Billionaire Losers Club" (lost: \$13.53 billion) and his once-grandiose plans.

"For the last 18 months, I've had to deal with everyone in town wanting to know how my mansion is going," he said one day last summer over dinner at the Capital Grille in Tysons Corner, downstairs from MicroStrategy's new, smaller offices. His voice was rising, and people at adjoining tables were peering back at him.

"There's no house," said Saylor, who instead of the grand house he once planned lives in a large brick Colonial in McLean. "I've been ridiculed in the press for expressing the hope of building a

house one day. Like, how much more ridiculous could it get to be ridiculed not for something you've done, but for something you've whimsically spoke about doing?"

Saylor is still extremely rich. His holdings in MicroStrategy are worth close to \$200 million. He liquidated about \$10 million last year to diversify his financial holdings and, in the long term, realize his plan for an online university.

He has become used to a certain lifestyle, stepping out of his big limousine at the Legg Mason tennis tournament, riding it around Adams Morgan and Georgetown, inviting people into the back seat to see a Santana concert on his DVD player. He jetted weekly to the Hamptons again last summer, this time staying in a large home he rented in Bridgehampton. He threw a "red party" at Cities to celebrate his 36th birthday. He wore black leather pants and a new red sweater that Brian, his butler, bought specially for the occasion. (Brian the butler has since been replaced by Herman the butler.)

Looking back on his "ordeal," Saylor is sometimes wistful. Since March 20, 2000, Saylor said, he has grown more humble and less judgmental and more sympathetic to humanity. On other days, he is sarcastic and bitter. "No one should articulate any grand notion," he said, shaking his head. "And I refuse to apologize for that. Do I regret that I got bludgeoned? Yes. Do I regret that I got bludgeoned because I made the mistake of being passionate and idealistic? Yes. That was my sin. I was youthful and naive."

Saylor often uses metaphor to describe his experience and its meanings. He was an innocent boy swimming in the ocean, he said, when a magical tidal wave came, a tidal wave of funding, fame and techno-mania to go with swells of adulation to reinforce everything his mother used to tell him: that he was put on earth to "do great and enormous things."

"The little kid's on a surfboard, and the tidal wave lifts him 300 feet in the air, right? What do you think that child would do? That child would try his best to stand up on his board."

But instead he crashes violently into the rocks.

"And he deserves something better than for some journalist after the fact to say, 'Ha, ha, ha, he thought he could ride a 300-foot wave. Now, look what it got him. . . . Let that be a lesson to other presumptuous little kids who would dare to stand up on that wave in the future.' "

But all the little kid wanted to do was surf, Saylor said with a pleading insistence. "It's like a gleeful satisfaction people take in order to ridicule idealists who actually wanted to do something decent."

He turns to music metaphors, craftsman metaphors. He compares himself to the homecoming queen who tries out for the cheerleading squad but trips and falls and finds that suddenly everybody hates her. He spins metaphors of extreme violence -- rape metaphors, a knifing metaphor. When he is reminded in a later interview that such graphic comparisons could be distasteful to some, he said, for the record, that it is not his intention to offend anyone.

He said he hopes these articles will reflect MicroStrategy's "going-forward attitude" -- how the company has become more focused, how its software wins technology "bake-offs" against its competitors. The latest versions of MicroStrategy's software, he said, are the carburetors, actually the engines, that allow Safeway to track a package of, say, Chips Ahoy cookies as it

passes through a checkout scanner in the District and alert inventory managers in a warehouse of a potential "out-of-stock situation" well before the store runs out of cookies.

Friends say Saylor is fully reengaged at work. His board seems to agree, and the calls for him to leave as CEO have subsided. He has returned to his business roots, one executive said, and the burden of being an "industrialist" has been lifted. "I'm still a visionary," Saylor said. "I'm a bit more mature, maybe an older, wiser visionary. And I realize today that if your vision is your vision, that and a quarter gets you a cup of coffee. But if you can make your vision your customer's vision, then you have a business."

Still, Saylor hardly seemed reconciled, often speaking of how things could have turned out differently.

What would have happened, for example, if John Dirks, the PricewaterhouseCoopers official who recommended that MicroStrategy "restate" its financial records in March 2000, had taken a vacation instead?

He went from being a first-class citizen in Washington to a fourth-class citizen, Saylor said, and now he has scratched his way up to being a second-class citizen. He illustrates his boomeranging fortunes with numbers: He was invited to the White House 10 times in 1999 and early 2000, he said, but not once in 2001.

Even his most avid critics say that Saylor was, in part, a product of his times. Saylor's sins were more in the realm of breaking rules he believed he could, said Greg Bruch, the SEC lawyer who led the investigation of MicroStrategy in 2000.

"As a society, we needed to build Mike up," said Manish Acharya, an early MicroStrategy employee who left the firm in early 1999. "What does it take not to be intoxicated? If everyone was given the kind of press he got, the kind of Wall Street value, how would they react? Would Mike fall into the top of the spectrum, or bottom? Or maybe he was average?"

'Collecting Experience'

While Saylor has made new friends in the past two years, he has also lost a lot of friends -- many of whom once made up his adult fraternity at MicroStrategy. Several of those he still considers friends are quick to speak critically of him, usually not for attribution. Some have gotten married and had children and have moved on to new chapters, enriched, in many cases, by the millions of dollars they made at MicroStrategy in better days. They are a close-knit group who have kept in touch, have hired one another for companies they've joined or started and are mostly grateful for the exhilarating times they spent at MicroStrategy. Nearly all of them say that Saylor is brilliant and they would never count him out.

But many of them left MicroStrategy feeling worn down by Saylor, tired of his abuse and angered by the restatement crisis. They also evince a sense of sadness when they speak about Saylor. "A lot of people who worked at MicroStrategy alternate between seeing Mike as this incorrigible ball of hubris and also feeling sorry for him as a human being," said Mark Bisnow, Saylor's personal publicist.

One longtime MicroStrategy executive compared Saylor to an addict. In a period of addiction, he said, a person's emotional and social development gets stunted. "Over 12 years, Michael became

addicted to power and control," the former executive said. It made it impossible for him to grow into a normal adulthood.

Another former executive recalls seeing Saylor, along with dozens of present and former employees, at the wedding of longtime MicroStrategist Sid Banerjee last summer. Saylor was in a gregarious mood and kept mentioning that he had a bottle of tequila out in his limo. As if he was in tycoon high school, the former executive said, "like it was just so cool to have this bottle of tequila in his limo."

A few friends, business associates and at least one board member have expressed concern to Saylor about his increased drinking. But in an interview last week, Saylor said he has no problem with alcohol. He drinks only on weekends, he said, and it has had no effect on his work. He said he has never drunk in front of his parents.

The restatement crisis showed him how quickly money could vanish, he said. He has become more "epicurean" in recent months. He has begun to define security in terms of "collecting experience," not collecting money. Now, he goes out and he meets friends at clubs. He has come to see that business is no longer the life-and-death matter that he once believed it was, even just a few months ago.

Saylor said he has also become more "spiritual and philosophically complex," more pragmatic and existential. "In the Air Force, they get promoted by taking a test, showing discipline. In my world, business, it's like politics, and who you know and what you said and quantum weirdness and random stuff."

Saylor said he agreed to be interviewed for these articles only because they were going to be written regardless of his participation. He is trying hard, he said, to be boring. "When you're seeking to build a business and no one knows who you are," he said, "the key is to be interesting, say interesting things in order to get attention." He's trying to only say "extremely uninteresting things."

One afternoon in early September, Saylor was sitting in a conference room at his office and trying to achieve his goal. He kept invoking carburetors, saying that the only people he wants to talk to are "technologists who are building analytical applications" he said. "Tools for techies," he repeated several times.

Then he began talking about the nature of public life and the elaborate web that is spun between the idealists and the cynics and how it creates a brutal system of checks and balances that can result in "human carnage."

"Your 2:45 is here," his assistant, Glenda Thomas, interrupted, poking her head in.

"Five minutes," Saylor said before going on for 20 more, describing his ideas on the economic and cultural "ecosystem" he inhabits, and why he admires Oracle Corp. founder Larry Ellison for rebounding after a dreadful accounting restatement by Oracle in the early 1990s.

Thomas, who would soon be leaving for a new job at AOL, poked her head in again.

Saylor led the reporter out, spinning more opinions on "the system," and then followed the reporter to the elevator bank, talking for 10 more minutes. The 2:45 stood in the lobby a few feet

away, having now waited 35 minutes. He is, in Saylor's words, "the CFO of one of our VARs," meaning the chief financial officer of one of MicroStrategy's "value-added resellers." A carburetor guy, checking his watch.

As the elevator opened, Saylor followed the reporter halfway in and declared that he had learned many lessons about life, leadership and humanity over the past two years. "They can all be valuable," he said by way of goodbye. "I'll be better prepared for my next life, whether it's in politics or whatever."

© 2002 The Washington Post Company