

CITRIX SYSTEMS INC  
Form 10-Q  
May 09, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2011

or

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

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

Commission File Number 0-27084

**CITRIX SYSTEMS, INC.**

*(Exact name of registrant as specified in its charter)*

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**75-2275152**  
*(IRS Employer  
Identification No.)*

**851 West Cypress Creek Road**

**Fort Lauderdale, Florida**  
*(Address of principal executive offices)*

**33309**  
*(Zip Code)*

**Registrant's Telephone Number, Including Area Code:**

**(954) 267-3000**

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

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

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

Large accelerated filer  Accelerated filer  
 Non-accelerated filer  Smaller reporting company

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

As of May 2, 2011 there were 187,995,411 shares of the registrant's Common Stock, \$.001 par value per share, outstanding.

**Table of Contents**

**CITRIX SYSTEMS, INC.**

**Form 10-Q**

**For the Quarterly Period Ended March 31, 2011**

**CONTENTS**

|  | <b>Page<br/>Number</b> |
|--|------------------------|
| <b>PART I:</b>   |                        |
| <b><u>FINANCIAL INFORMATION</u></b>  |                        |
| Item 1.  |                        |
| <u>Condensed Consolidated Financial Statements</u>   |                        |
| <u>Condensed Consolidated Balance Sheets: March 31, 2011 and December 31, 2010 (Unaudited)</u>                 | 3                      |
| <u>Condensed Consolidated Statements of Income: Three Months ended March 31, 2011 and 2010 (Unaudited)</u>     | 4                      |
| <u>Condensed Consolidated Statements of Cash Flows: Three Months ended March 31, 2011 and 2010 (Unaudited)</u> | 5                      |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>  | 6                      |
| Item 2.  |                        |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                   | 25                     |
| Item 3.  |                        |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 39                     |
| Item 4.  |                        |
| <u>Controls and Procedures</u>   | 39                     |
| <b>PART II:</b>  |                        |
| <b><u>OTHER INFORMATION</u></b>  |                        |
| Item 1.  |                        |
| <u>Legal Proceedings</u>   | 40                     |
| Item 1A.   |                        |
| <u>Risk Factors</u>  | 40                     |
| Item 2.  |                        |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 40                     |
| Item 5.  |                        |
| <u>Other Information</u>   | 40                     |
| Item 6.  |                        |
| <u>Exhibits</u>  | 41                     |
| <u>Signature</u>   | 42                     |

**Table of Contents****PART I: FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****CITRIX SYSTEMS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

|  | March 31,<br>2011                | December 31,<br>2010 |
|--|----------------------------------|----------------------|
|  | (In thousands, except par value) |                      |
| <b>Assets</b>  |                                  |                      |
| Current assets:  |                                  |                      |
| Cash and cash equivalents  | \$ 515,340                       | \$ 396,162           |
| Short-term investments available-for-sale  | 414,579                          | 497,643              |
| Accounts receivable, net of allowances of \$3,969 and \$4,259 at March 31, 2011 and December 31, 2010, respectively  | 297,190                          | 378,395              |
| Inventories  | 7,513                            | 6,980                |
| Prepaid expenses and other current assets  | 112,926                          | 105,073              |
| Current portion of deferred tax assets, net  | 84,291                           | 86,226               |
| <b>Total current assets</b>  | <b>1,431,839</b>                 | <b>1,470,479</b>     |
| Long-term investments available-for-sale   | 708,906                          | 791,854              |
| Property and equipment, net  | 261,235                          | 250,482              |
| Goodwill   | 1,040,548                        | 921,100              |
| Other intangible assets, net   | 198,921                          | 178,144              |
| Long-term portion of deferred tax assets, net  | 59,794                           | 43,815               |
| Other assets   | 51,322                           | 47,726               |
|  | <b>\$ 3,752,565</b>              | <b>\$ 3,703,600</b>  |
| <b>Liabilities and Equity</b>  |                                  |                      |
| Current liabilities:   |                                  |                      |
| Accounts payable   | \$ 47,610                        | \$ 65,842            |
| Accrued expenses and other current liabilities   | 248,266                          | 289,838              |
| Current portion of deferred revenues   | 678,186                          | 664,332              |
| <b>Total current liabilities</b>   | <b>974,062</b>                   | <b>1,020,012</b>     |
| Long-term portion of deferred revenues   | 110,569                          | 114,638              |
| Other liabilities  | 48,960                           | 8,362                |
| Commitments and contingencies  |                                  |                      |
| Equity:  |                                  |                      |
| Citrix Systems, Inc. stockholders' equity  |                                  |                      |
| Preferred stock at \$.01 par value: 5,000 shares authorized, none issued and outstanding   |                                  |                      |
| Common stock at \$.001 par value: 1,000,000 shares authorized; 279,933 and 277,992 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively | 280                              | 278                  |
| Additional paid-in capital   | 3,197,062                        | 3,112,186            |
| Retained earnings  | 1,928,652                        | 1,855,149            |
| Accumulated other comprehensive income   | 10,934                           | 2,023                |
|  | <b>5,136,928</b>                 | <b>4,969,636</b>     |

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

|   |                     |              |
|---|---------------------|--------------|
| Less common stock in treasury, at cost (92,079 and 90,502 shares at March 31, 2011 and December 31, 2010, respectively) | (2,525,395)         | (2,416,645)  |
| Total Citrix Systems, Inc. stockholders equity  | <b>2,611,533</b>    | 2,552,991    |
| Non-controlling interest  | <b>7,441</b>        | 7,597        |
| Total equity  | <b>2,618,974</b>    | 2,560,588    |
|   | <b>\$ 3,752,565</b> | \$ 3,703,600 |

See accompanying notes.

Table of Contents

## CITRIX SYSTEMS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

|  | Three Months Ended March 31,                 |            |
|--|--|------------|
|  | 2011   | 2010       |
|  | (In thousands, except per share information) |            |
| Revenues:  |  |            |
| Product licenses   | \$ 150,260                                   | \$ 122,706 |
| License updates  | 177,876                                      | 162,955    |
| Online services  | 99,772                                       | 84,950     |
| Technical services   | 62,980                                       | 43,661     |
| Total net revenues   | 490,888                                      | 414,272    |
| Cost of net revenues:  |  |            |
| Cost of product licenses revenues  | 14,041                                       | 12,651     |
| Cost of services revenues  | 30,666                                       | 23,690     |
| Amortization of product related intangible assets                              | 12,699                                       | 12,358     |
| Total cost of net revenues   | 57,406                                       | 48,699     |
| Gross margin   | 433,482                                      | 365,573    |
| Operating expenses:  |  |            |
| Research and development   | 82,718                                       | 77,702     |
| Sales, marketing and services  | 194,243                                      | 170,520    |
| General and administrative   | 72,105                                       | 60,619     |
| Amortization of other intangible assets  | 3,509  | 4,157      |
| Restructuring  | 24   | 500        |
| Total operating expenses   | 352,599                                      | 313,498    |
| Income from operations   | 80,883                                       | 52,075     |
| Interest income  | 3,939  | 3,556      |
| Other income, net  | 3,633  | 377        |
| Income before income taxes   | 88,455                                       | 56,008     |
| Income taxes   | 15,108                                       | 8,659      |
| Consolidated net income  | 73,347                                       | 47,349     |
| Less: Net loss attributable to non-controlling interest                        | 156  |            |
| Net income attributable to Citrix Systems, Inc.                                | \$ 73,503                                    | \$ 47,349  |
| Net income per share attributable to Citrix Systems, Inc. stockholders:        |  |            |
| Net income per share attributable to Citrix Systems, Inc. stockholders basic   | \$ 0.39                                      | \$ 0.26    |
| Net income per share attributable to Citrix Systems, Inc. stockholders diluted | \$ 0.38                                      | \$ 0.25    |
| Weighted average shares outstanding:   |  |            |

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

|         |         |         |
|---------|---------|---------|
| Basic   | 187,571 | 184,018 |
| Diluted | 191,500 | 188,842 |

See accompanying notes.

**Table of Contents****CITRIX SYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

|   | <b>Three Months Ended March 31,</b> |                  |
|---|-------------------------------------|------------------|
|   | <b>2011</b>                         | <b>2010</b>      |
|   | <b>(In thousands)</b>               |                  |
| <b>Operating Activities</b>   |                                     |                  |
| Net income  | \$ 73,347                           | \$ 47,349        |
| Adjustments to reconcile net income to net cash provided by operating activities:                     |                                     |                  |
| Amortization of intangible assets   | 16,208                              | 16,515           |
| Depreciation and amortization of property and equipment   | 19,641                              | 17,480           |
| Stock-based compensation expense  | 17,884                              | 24,927           |
| Loss on investments   | 490                                 | 126              |
| Provision for doubtful accounts   | (901)                               | 792              |
| Provision for product returns   | 1,530                               | 662              |
| Provision for inventory reserves  | 517                                 | 585              |
| Tax effect of stock-based compensation  | 15,492                              | 9,449            |
| Excess tax benefit from exercise of stock options   | (15,502)                            | (13,581)         |
| Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies | (3,350)                             | 1,440            |
| Other non-cash items  | 964                                 | 97               |
| <b>Total adjustments to reconcile net income to net cash provided by operating activities</b>         | <b>52,973</b>                       | <b>58,492</b>    |
| Changes in operating assets and liabilities, net of the effects of acquisitions:                      |                                     |                  |
| Accounts receivable   | 85,622                              | 60,112           |
| Inventories   | (1,050)                             | 743              |
| Prepaid expenses and other current assets   | (6,009)                             | (39,420)         |
| Other assets  | (1,293)                             | 3,567            |
| Deferred tax assets, net  | (14,196)                            | 10,246           |
| Accounts payable  | (21,456)                            | (3,328)          |
| Accrued expenses and other current liabilities  | (41,759)                            | (11,019)         |
| Deferred revenues   | 2,240                               | 17,438           |
| Other liabilities   | 30,809                              | (615)            |
| <b>Total changes in operating assets and liabilities, net of the effects of acquisitions</b>          | <b>32,908</b>                       | <b>37,724</b>    |
| <b>Net cash provided by operating activities</b>  | <b>159,228</b>                      | <b>143,565</b>   |
| <b>Investing Activities</b>   |                                     |                  |
| Purchases of available-for-sale investments   | (182,919)                           | (455,678)        |
| Proceeds from sales of available-for-sale investments   | 180,434                             | 116,206          |
| Proceeds from maturities of available-for-sale investments  | 169,008                             | 175,903          |
| Proceeds from repayments of trading securities  |                                     | 3,026            |
| Purchases of property and equipment   | (26,845)                            | (11,261)         |
| Purchases of cost method investments  | (1,852)                             |                  |
| Cash paid for acquisitions, net of cash acquired  | (118,440)                           | (9,466)          |
| Cash paid for licensing agreements and product related intangible assets                              | (1,522)                             | (7,293)          |
| <b>Net cash provided by (used in) investing activities</b>  | <b>17,864</b>                       | <b>(188,563)</b> |
| <b>Financing Activities</b>   |                                     |                  |
| Proceeds from issuance of common stock under stock-based compensation plans                           | 42,337                              | 154,930          |
| Repayment of acquired debt  | (10,926)                            |                  |
| Excess tax benefit from exercise of stock options   | 15,502                              | 13,581           |
| Stock repurchases, net  | (99,954)                            | (99,993)         |



Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

|  |            |            |
|--|------------|------------|
| Cash paid for tax withholding on vested stock awards         | (8,797)    | (2,676)    |
| Net cash (used in) provided by financing activities          | (61,838)   | 65,842     |
| Effect of exchange rate changes on cash and cash equivalents | 3,924      | (440)      |
| Change in cash and cash equivalents                          | 119,178    | 20,404     |
| Cash and cash equivalents at beginning of period             | 396,162    | 261,443    |
| Cash and cash equivalents at end of period                   | \$ 515,340 | \$ 281,847 |

See accompanying notes.

---

**Table of Contents**

**CITRIX SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of Citrix Systems, Inc. (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. All adjustments, which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown, are of a normal recurring nature and have been reflected in the condensed consolidated financial statements and accompanying notes. The results of operations for the periods presented are not necessarily indicative of the results expected for the full year or for any future period partially because of the seasonality of the Company's business. Historically, the Company's revenue for the fourth quarter of any year is typically higher than the revenue for the first quarter of the subsequent year. The information included in these condensed consolidated financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this report and the condensed consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

The condensed consolidated financial statements of the Company include the accounts of its wholly-owned subsidiaries in the Americas, Europe, the Middle East and Africa (EMEA), Asia-Pacific and the Online Services division. All significant transactions and balances between the Company and its subsidiaries have been eliminated in consolidation. In addition, the Company presents non-controlling interests within the equity section of its condensed consolidated financial statements in accordance with the revised authoritative guidance for the presentation and disclosure of non-controlling interests of a consolidated subsidiary.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. While the Company believes that such estimates are fair when considered in conjunction with the condensed consolidated financial statements and accompanying notes, the actual amount of such estimates, when known, will vary from these estimates.

*Investments*

Short-term and long-term investments at March 31, 2011 and December 31, 2010 primarily consist of agency securities, corporate securities, government securities, municipal securities and commercial paper. Investments classified as available-for-sale are stated at fair value with unrealized gains and losses, net of taxes, reported in accumulated other comprehensive income. Investments classified as trading securities are stated at fair value with unrealized gains and losses reported in earnings. The Company classifies its available-for-sale investments as current and non-current based on their actual remaining time to maturity. The Company does not recognize changes in the fair value of its available-for-sale investments in income unless a decline in value is considered other-than-temporary in accordance with the authoritative guidance.

The Company's investment policy is designed to limit exposure to any one issuer depending on credit quality. The Company uses information provided by third parties to adjust the carrying value of certain of its investments to fair value at the end of each period. Fair values are based on a variety of inputs and may include interest rates, known historical trades, yield curve information, benchmark data, prepayment speeds, credit quality and broker/dealer quotes.

*Inventory*

Inventories are stated at the lower of cost or market on a standard cost basis, which approximates actual cost. The Company's inventories primarily consist of finished goods as of March 31, 2011 and December 31, 2010.

*Revenue Recognition*

Net revenues include the following categories: Product Licenses, License Updates, Online Services and Technical Services. Product License revenues primarily represent fees related to the licensing of the Company's software and hardware appliance products. These revenues are reflected net of sales allowances, cooperative advertising agreements, reseller rewards and provisions for returns. The Company licenses most of its software products bundled with a one year contract for its Subscription Advantage program. Subscription Advantage is a renewable program that provides subscribers with immediate access to software upgrades, enhancements and maintenance releases when and if they become available during the term of the contract. License Update revenues consist of fees

**Table of Contents**

**CITRIX SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

related to the Subscription Advantage program that are recognized ratably over the term of the contract, which is typically 12 to 24 months. The Company capitalizes certain third party commissions related to Subscription Advantage renewals. The capitalized commissions are amortized to Sales, Marketing and Services expense at the time the related deferred revenue is recognized as revenue. Shipping charges billed to customers are included in product revenue and the related shipping costs are included in cost of product revenue. Online Services revenues consist primarily of fees related to online service agreements, which are recognized ratably over the contract term. In addition, Online Services revenues may also include set-up fees, which are recognized ratably over the contract term or the expected customer life, whichever is longer. Technical Services revenues are comprised of fees from technical support services and post contract support agreements which are recognized ratably over the contract term as well as revenues from product training and certification, and consulting services revenue related to the implementation of the Company's products, which is recognized as the services are provided.

The Company recognizes revenue when it is earned and when all of the following criteria are met: persuasive evidence of the arrangement exists; delivery has occurred or the service has been provided and the Company has no remaining obligations; the fee is fixed or determinable; and collectability is probable. The Company defines these four criteria as follows:

*Persuasive evidence of the arrangement exists.* The Company recognizes revenue on packaged products and appliances upon shipment to distributors and resellers. For packaged product and appliance sales, it is the Company's customary practice to require a purchase order from distributors and resellers who have previously negotiated a master packaged product distribution or resale agreement. For electronic and paper license arrangements, the Company typically requires a purchase order from the distributor, reseller or end-user (depending on the arrangement) and an executed product license agreement from the end-user. For technical support, product training and consulting services, the Company requires a purchase order and an executed agreement. For online services, the Company requires the customer or the reseller to electronically accept the terms of an online services agreement or execute a contract.

*Delivery has occurred and the Company has no remaining obligations.* For product license and hardware appliance sales, the Company's standard delivery method is free-on-board shipping point. Consequently, it considers delivery of packaged products and appliances to have occurred when the products are shipped pursuant to an agreement and purchase order. The Company considers delivery of licenses under electronic licensing agreements to have occurred when the related products are shipped and the end-user has been electronically provided the software activation keys that allow the end-user to take immediate possession of the product. For online services, delivery occurs upon providing the users with their login id and password. For product training and consulting services, the Company fulfills its obligation when the services are performed. For license updates, technical support and online services, the Company assumes that its obligation is satisfied ratably over the respective terms of the agreements, which are typically 12 to 24 months.

*The fee is fixed or determinable.* In the normal course of business, the Company does not provide customers the right to a refund of any portion of their license fees or extended payment terms. The fees are considered fixed and determinable upon establishment of an arrangement that contains the final terms of the sale including description, quantity and price of each product or service purchased. For Online Services, the fee is considered fixed or determinable if it is not subject to refund or adjustment.

*Collectability is probable.* The Company determines collectability on a customer-by-customer basis and generally does not require collateral. The Company typically sells product licenses and license updates to distributors or resellers for whom there are histories of successful collection. New customers are typically subject to a credit review process that evaluates their financial position and ultimately their ability to pay. Customers are also subject to an ongoing credit review process. If the Company determines from the

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

outset of an arrangement that collectability is not probable, revenue recognition is deferred until customer payment is received and the other parameters of revenue recognition described above have been achieved. Management's judgment is required in assessing the probability of collection, which is generally based on an evaluation of customer specific information, historical experience and economic market conditions.

The majority of the Company's product license revenue consists of revenue from the sale of stand-alone software products. Stand-alone software sales generally include a perpetual license to the Company's software and is subject to the industry specific software revenue recognition guidance. In accordance with this guidance, the Company allocates revenue to license updates related to its stand-alone software and any other undelivered elements of the arrangement based on vendor specific objective evidence ( VSOE ) of fair value of each element and such amounts are deferred until the applicable delivery criteria and other revenue recognition criteria described above have been met. The balance of the revenues, net of any discounts inherent in the arrangement, is recognized at the outset of the arrangement using the residual method as the product licenses are delivered. If management cannot objectively determine the fair value of each undelivered element based on VSOE of fair value, revenue recognition is deferred until all elements are delivered, all services have been performed, or until fair value can be objectively determined.

**Table of Contents**

**CITRIX SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The Company's hardware appliances contain software components that are essential to the overall functionality of the products. For hardware appliance transactions entered into prior to January 1, 2011, revenue for arrangements with multiple elements, such as sales of products that included services, was allocated to each element using the residual method based on the VSOE of the fair value of the undelivered items pursuant to authoritative guidance. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. If VSOE of one or more undelivered items does not exist, revenue from the entire arrangement is deferred and recognized at the earlier of: (i) delivery of those elements or (ii) when fair value can be established unless maintenance is the only undelivered element, in which case, the entire arrangement fee is recognized ratably over the contractual support period.

In October 2009, the Financial Accounting Standards Board ( FASB ) amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for multiple deliverable revenue arrangements to:

- (i) provide updated guidance on how the deliverables in a multiple deliverable arrangement should be separated, and how the consideration should be allocated;
- (ii) require an entity to allocate revenue in an arrangement using estimated selling prices ( ESP ) of deliverables if a vendor does not have VSOE of selling price or third-party evidence of selling price ( TPE ); and
- (iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

The Company's hardware appliances contain software components that are essential to the overall functionality of the products. Effective January 1, 2011 the Company adopted these standards on a prospective basis for new and materially modified arrangements originating after December 31, 2010. The adoption of these standards did not have a material impact on the Company's financial position and results of operations for the three months ended March 31, 2011. The Company does not expect the adoption of these standards to have a material impact on its financial position and results of operations in the future.

For new and materially modified hardware appliance transactions subsequent to the adoption of the amended revenue recognition standards that are multiple-element arrangements, the arrangement consideration is allocated to stand-alone software deliverables as a group and the non-software deliverables based on the relative selling prices of using the selling price hierarchy in the amended revenue recognition guidance. The selling price hierarchy for a deliverable is based on its VSOE if available, third-party evidence if VSOE is not available, or estimated selling price if neither VSOE nor TPE is available. The Company then recognizes revenue on each deliverable in accordance with its policies for product and service revenue recognition. VSOE of selling price is based on the price charged when the element is sold separately. In determining VSOE, the Company requires that a substantial majority of the selling prices fall within a reasonable range based on historical discounting trends for specific products and services. TPE of selling price is established by evaluating competitor products or services in stand-alone sales to similarly situated customers. However, as the Company's products contain a significant element of proprietary technology and its solutions offer substantially different features and functionality, the comparable pricing of products with similar functionality typically cannot be obtained. Additionally, as the Company is unable to reliably determine what competitors products' selling prices are on a stand-alone basis, the Company is not typically able to determine TPE. The estimate of selling price is established considering multiple factors including, but not limited to pricing practices in different geographies and through different sales channels and competitor pricing strategies.

For the Company's non-software deliverables it allocates the arrangement consideration based on the relative selling price of the deliverables. For the Company's hardware appliances, it uses ESP as its selling price. For the Company's support and services, it generally uses VSOE as its selling

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

price. When the Company is unable to establish selling price using VSOE for its support and services, the Company uses ESP in its allocation of arrangement consideration.

Online Services are sold separately. The Company's Online Services are purchased by large enterprises, small and medium-sized businesses, as well as individuals, and are centrally hosted within the Company's datacenters. The Company's Online Services are considered service arrangements per the authoritative guidance, accordingly, the Company follows the provisions of Securities and Exchange Commission Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*, when accounting for these service arrangements. Generally, the Company's Online Services are sold separately and not bundled with the Enterprise division's products and services.

In the normal course of business, the Company is not obligated to accept product returns from its distributors under any conditions, unless the product item is defective in manufacture. The Company establishes provisions for estimated returns, as well as other sales allowances, concurrently with the recognition of revenue. The provisions are established based upon consideration of a variety of factors, including, among other things, recent and historical return rates for both specific products and distributors and the

**Table of Contents****CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

impact of any new product releases and projected economic conditions. Product returns are provided for in the consolidated financial statements and have historically been within management's expectations. Allowances for estimated product returns amounted to approximately \$1.3 million and \$0.9 million at March 31, 2011 and December 31, 2010, respectively. The Company also records estimated reductions to revenue for customer programs and incentive offerings including volume-based incentives. The Company could take actions to increase its customer incentive offerings, which could result in an incremental reduction to revenue at the time the incentive is offered.

*Foreign Currency*

The functional currency for substantially all of the Company's wholly-owned foreign subsidiaries is the U.S. dollar. Monetary assets and liabilities of the subsidiaries are remeasured into U.S. dollars at exchange rates in effect at the balance sheet date, and revenues and expenses are remeasured at average rates prevailing during the year. For the Company's subsidiaries that are not U.S. dollar functional, it translates assets and liabilities of foreign subsidiaries at exchange rates in effect at the balance sheet date. The Company includes accumulated net translation adjustments in equity as a component of accumulated other comprehensive income.

*Accounting for Stock-Based Compensation Plans*

The Company has various stock-based compensation plans for its employees and outside directors and accounts for stock-based compensation arrangements in accordance with the authoritative guidance, which requires the Company to measure and record compensation expense in its condensed consolidated financial statements using a fair value method. See Note 7 for further information regarding the Company's stock-based compensation plans.

**3. NET INCOME PER SHARE ATTRIBUTABLE TO CITRIX SYSTEMS, INC. STOCKHOLDERS**

Net income per share attributable to Citrix Systems, Inc. stockholders - basic is calculated by dividing net income attributable to Citrix Systems, Inc. stockholders by the weighted-average number of common shares outstanding during each period. Net income per share attributable to Citrix Systems, Inc. stockholders - diluted is computed using the weighted average number of common and dilutive common share equivalents outstanding during the period. Dilutive common share equivalents consist of shares issuable upon the exercise of stock awards (calculated using the treasury stock method) during the period they were outstanding.

The following table sets forth the computation of basic and diluted net income per share attributable to Citrix Systems, Inc. stockholders (in thousands, except per share information):

|  | <b>Three Months ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
| <b>Numerator:</b>  |   |             |
| Net income attributable to Citrix Systems, Inc. stockholders                     | <b>\$ 73,503</b>                        | \$ 47,349   |
| <b>Denominator:</b>  |   |             |
| Denominator for basic earnings per share - weighted-average shares outstanding   | <b>187,571</b>                          | 184,018     |
| Effect of dilutive employee stock awards   | <b>3,929</b>                            | 4,824       |
| Denominator for diluted earnings per share - weighted-average shares outstanding | <b>191,500</b>                          | 188,842     |
| Net income per share attributable to Citrix Systems, Inc. stockholders - basic   | <b>\$ 0.39</b>                          | \$ 0.26     |



Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

|  |         |    |             |    |       |
|--|---------|----|-------------|----|-------|
| Net income per share attributable to Citrix Systems, Inc. stockholders | diluted | \$ | <b>0.38</b> | \$ | 0.25  |
| Anti-dilutive weighted-average shares                                  |         |    | <b>857</b>  |    | 1,760 |

**Table of Contents****CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****4. ACQUISITIONS***2011 Acquisitions**Netviewer AG*

In February 2011, the Company acquired all of the issued and outstanding securities of Netviewer AG (the Netviewer Acquisition or Netviewer), a privately held European software-as-a-service (SaaS) vendor in collaboration and information technology (IT) services. Netviewer became part of the Company's Online Services division and the acquisition will enable the extension of its SaaS business in Europe. The total preliminary consideration for this transaction was approximately \$107.5 million, net of \$6.3 million of cash acquired, and was paid in cash. Transaction costs associated with the acquisition were approximately \$2.4 million, of which the Company expensed \$0.4 million during the first quarter of 2011 and is included in general and administrative expense in the accompanying condensed consolidated statement of income. In addition, in connection with the acquisition, the Company converted and assumed approximately 99,100 non-vested stock units for which the vesting period reset fully upon the closing of the transaction.

Revenues from Netviewer are included in the Company's Online Services division's revenue. The Company has included the effect of the Netviewer Acquisition in its results of operations prospectively from the date of the acquisition, which effect was not material to its consolidated results. Accordingly, pro forma financial disclosures have not been presented.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

|                                       | <b>Fair Value<br/>(in thousands)</b> | <b>Weighted<br/>Average<br/>Asset<br/>Life</b> |
|---------------------------------------|--------------------------------------|--|
| Current assets                        | \$ 12,347                            |  |
| Other assets                          | 330                                  |  |
| Property and equipment                | 3,218                                | Various  |
| Intangible assets                     | 28,806                               | 4-7 years                                      |
| Goodwill                              | 108,644                              | Indefinite                                     |
| Assets acquired                       | 153,345                              |  |
| Current liabilities assumed           | (18,952)                             |  |
| Long-term liabilities assumed         | (11,949)                             |  |
| Deferred tax liabilities, non-current | (8,606)                              |  |
| Net assets acquired                   | \$ 113,838                           |  |

Current assets acquired in connection with the Netviewer Acquisition consisted primarily of cash and accounts receivable. Current liabilities acquired in the acquisition of Netviewer consisted primarily of deferred revenues, short-term payables, other accrued expenses and long-term liabilities consisted of long term debt which was paid in full subsequent to the acquisition date in the first quarter of 2011. Approximately \$108.6 million of goodwill related to the Netviewer Acquisition was assigned to the Company's Online Services division and is not deductible for tax purposes. See Note 10 for segment information. The amount of goodwill is comprised primarily of expected synergies from combining operations and other intangible assets that do not qualify for separate recognition.

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Identifiable intangible assets purchased in the Netviewer Acquisition, in thousands, and their weighted average lives are as follows:

|                               | <b>Fair Value<br/>(in thousands)</b> | <b>Weighted Average<br/>Life</b> |
|-------------------------------|--------------------------------------|----------------------------------|
| Trade names                   | 541                                  | 4.0 years                        |
| Customer relationships        | 25,019                               | 7.0 years                        |
| Core and product technologies | 3,246                                | 4.0 years                        |
| Total                         | \$ 28,806                            |                                  |

The Company continues to evaluate certain tax assets and liabilities related to the Netviewer Acquisition. Additional information, which existed as of the acquisition date but was at that time unknown to the Company, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date. Changes to amounts recorded as assets or liabilities may result in a corresponding adjustment to goodwill.

**Table of Contents****CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***Other Acquisition*

During the first quarter of 2011, the Company acquired certain assets of a wholly-owned subsidiary of a privately-held company for a total cash consideration of approximately \$10.5 million. The Company accounted for this acquisition as a business combination in accordance with the authoritative guidance and it became part of the Company's Enterprise division expanding the Company's solutions portfolio for service providers and developing integrations with the Company's cloud application delivery solutions. The Company recorded approximately \$5.9 million of goodwill, which is not deductible for tax purposes, and acquired \$4.7 million of identifiable intangible assets, of which \$3.0 million is related to product related intangible assets with a useful life of 5.0 years and \$1.7 million is related to other intangible assets with a weighted-average useful life of 7.3 years. In addition, the Company assumed liabilities of approximately \$0.1 million in conjunction with the acquisitions. The Company has included the effect of this transaction in its results of operations prospectively from the date of the acquisition, which effect was not material to its consolidated results.

*2010 Acquisitions*

On September 7, 2010, the Company acquired all of the issued and outstanding securities of VMLogix, Inc. (VMLogix), a privately held corporation headquartered in Santa Clara, California. VMLogix is a provider of virtualization management software for private and public cloud computing systems. The total consideration for this transaction was approximately \$13.2 million, comprised of approximately \$10.4 million in cash, net of cash acquired, and approximately \$2.8 million related to VMLogix liabilities settled in conjunction with the acquisition. The source of funds for this transaction consisted of available cash. The Company recorded approximately \$7.7 million of goodwill, which is not deductible for tax purposes, and acquired \$10.6 million in assets including \$7.5 million of identifiable intangible assets, of which \$6.2 million is related to product related intangible assets with a useful life of 5.0 years and \$1.3 million is related to other intangible assets with a useful life of 4.0 years. The Company assumed liabilities of approximately \$5.1 million in conjunction with the acquisition. In addition, the Company also assumed stock options for which the vesting period reset fully upon the closing of the transaction. When these stock options vest, they will be exercisable for up to 47,784 shares of the Company's common stock. The Company has included the effect of this transaction in its results of operations prospectively from the date of the acquisition, which effect was not material to its consolidated results.

During the first quarter of 2010, the Company acquired two privately-held companies for a total cash consideration of approximately \$9.2 million, net of cash acquired. The Company recorded approximately \$2.6 million of goodwill, which is not deductible for tax purposes, and acquired \$9.4 million in assets including \$7.1 million of identifiable intangible assets, of which \$6.2 million is related to product related intangible assets with a weighted-average useful life of 5.0 years and \$0.9 million is related to other intangible assets with a weighted-average useful life of 2.0 years. In addition, the Company assumed liabilities of approximately \$2.8 million in conjunction with the acquisitions. The Company has included the effects of these transactions in its results of operations prospectively from the respective dates of the acquisitions, which effects were not material to its consolidated results.

**5. INVESTMENTS***Available-for-sale Investments*

Investments in available-for-sale securities at fair value were as follows for the periods ended (in thousands):

| Description of the Securities | March 31, 2011 |                  |                  |            | December 31, 2010 |                  |                  |            |
|-------------------------------|----------------|------------------|------------------|------------|-------------------|------------------|------------------|------------|
|                               | Amortized Cost | Gross Unrealized | Gross Unrealized | Fair Value | Amortized Cost    | Gross Unrealized | Gross Unrealized | Fair Value |
|                               |                | Gains            | Losses           |            |                   | Gains            | Losses           |            |
| Agency securities             | \$ 656,265     | \$ 2,808         | \$ (862)         | \$ 658,211 | \$ 728,177        | \$ 2,134         | \$ (780)         | \$ 729,531 |

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

|                       |                     |                 |                   |                     |                     |                 |                   |                     |
|-----------------------|---------------------|-----------------|-------------------|---------------------|---------------------|-----------------|-------------------|---------------------|
| Corporate securities  | 413,532             | 797             | (539)             | 413,790             | 453,279             | 933             | (1,107)           | 453,105             |
| Government securities | 29,180              | 146             | (16)              | 29,310              | 77,976              | 245             | (19)              | 78,202              |
| Municipal securities  | 22,132              | 42              |                   | 22,174              | 28,681              | 8               | (30)              | 28,659              |
| <b>Total</b>          | <b>\$ 1,121,109</b> | <b>\$ 3,793</b> | <b>\$ (1,417)</b> | <b>\$ 1,123,485</b> | <b>\$ 1,288,113</b> | <b>\$ 3,320</b> | <b>\$ (1,936)</b> | <b>\$ 1,289,497</b> |

The change in net unrealized gains (losses) on available-for-sale securities recorded in other comprehensive income includes unrealized gains (losses) that arose from changes in market value of specifically identified securities that were held during the period and gains (losses) that were previously unrealized, but have been recognized in current period net income due to sales, as well as prepayments of available-for-sale investments purchased at a premium. This reclassification has no effect on total comprehensive income or equity and was immaterial for all periods presented.

**Table of Contents**

**CITRIX SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

For the three months ended March 31, 2011 and 2010, the Company received proceeds from sales of available-for-sale investments of \$180.4 million and \$116.2 million, respectively. For the three months ended March 31, 2011 and March 31, 2010, the Company had realized gains on the sales of available-for-sale investments of \$0.2 million for both periods. For the three months ended March 31, 2011, the Company had realized losses on available-for-sale investments of \$0.6 million related to prepayments at par of securities purchased at a premium and for the three months ended March 31, 2010, the Company did not have any material realized losses on the sales of available-for-sale investments. All realized gains and losses related to the sales of available-for-sale investments are included in other income, net, in the accompanying condensed consolidated statements of income.

The average remaining maturities of the Company's short-term and long-term available-for-sale investments at March 31, 2011 were approximately five months and eight years, respectively.

*Unrealized Losses on Available-for-sale Investments*

The gross unrealized losses on the Company's available-for-sale investments that are not deemed to be other-than-temporarily impaired were \$1.4 million and \$1.9 million as of March 31, 2011 and December 31, 2010, respectively. The decrease in gross unrealized losses when comparing March 31, 2011 to December 31, 2010 was primarily due to the improvement in the Company's investment issued by AIG Matched Funding Corporation (the AIG Capped Floater) with a face value of \$50.0 million, which matures in September 2011. As of March 31, 2011, the unrealized loss related to the AIG Capped Floater was not material. Because the Company does not intend to sell any of its investments in an unrealized loss position and it is more likely than not that it will not be required to sell the securities before the recovery of its amortized cost basis, which may not occur until maturity, it does not consider the securities to be other-than-temporarily impaired.

*Cost Method Investments*

The Company held direct investments in privately-held companies of approximately \$23.2 million and \$21.3 million as of March 31, 2011 and December 31, 2010, respectively, which are accounted for based on the cost method and are included in other assets in the accompanying condensed consolidated balance sheets. The Company periodically reviews these investments for impairment. If the Company determines that an other-than-temporary impairment has occurred, it will write-down the investment to its fair value.

**6. FAIR VALUE MEASUREMENTS**

The authoritative guidance defines fair value as an exit price, representing the amount that would either be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

*Level 1.* Observable inputs such as quoted prices in active markets for identical assets or liabilities;

*Level 2.* Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

*Level 3.* Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Available-for-sale securities included in Level 1 are valued using closing prices for identical instruments that are traded on active exchanges. Available-for-sale securities included in Level 2 are valued utilizing inputs obtained from an independent pricing service (the Service ) which uses quoted market prices for identical or comparable instruments rather than direct observations of quoted prices in active markets. The Service gathers observable inputs for all of the Company's fixed income securities from a variety of industry data providers, for example, large custodial institutions and other third-party sources. Once the observable inputs are gathered by the Service, all data points are considered and an average price is determined. The Service's providers utilize a variety of inputs to determine their quoted prices. These inputs may include interest rates, known historical trades, yield curve information, benchmark data, prepayment speeds, credit quality and broker/dealer quotes. Substantially all of the Company's available-for-sale investments are valued utilizing inputs obtained from the Service and accordingly are categorized as Level 2 in the table below. The Company does not adjust the prices obtained from the Service. Available-for-sale securities are included in Level 3 when relevant observable inputs for a security are not available.

**Table of Contents****CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the classification of assets and liabilities within the fair value hierarchy. In certain instances, the inputs used to measure fair value may meet the definition of more than one level of the fair value hierarchy. The input with the lowest level priority is used to determine the applicable level in the fair value hierarchy.

*Assets and Liabilities Measured at Fair Value on a Recurring Basis*

|  | As of March 31,<br>2011 | Quoted<br>Prices In<br>Active Markets<br>for<br>Identical<br>Assets (Level 1) | Significant<br>Other<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
|--|-------------------------|---|--|---|
|  |                         | (in thousands)  |  |   |
| <b>Assets:</b>   |                         |   |  |   |
| <b>Available-for-sale securities:</b>                  |                         |   |  |   |
| Agency securities                                      | \$ 658,211              | \$  | \$ 658,211   | \$  |
| Corporate securities                                   | 413,790                 |   | 364,002  | 49,788  |
| Government securities                                  | 29,310                  |   | 29,310   |   |
| Municipal securities                                   | 22,174                  |   | 22,174   |   |
| <b>Prepaid expenses and other current assets:</b>      |                         |   |  |   |
| Foreign currency derivatives                           | 13,554                  |   | 13,554   |   |
| <b>Total assets</b>                                    | <b>\$ 1,137,039</b>     | <b>\$</b>   | <b>\$ 1,087,251</b>                                    | <b>\$ 49,788</b>                                |
| <b>Accrued expenses and other current liabilities:</b> |                         |   |  |   |
| Foreign currency derivatives                           | 4,040                   |   | 4,040  |   |
| <b>Total liabilities</b>                               | <b>\$ 4,040</b>         | <b>\$</b>   | <b>\$ 4,040</b>  | <b>\$</b>                                       |

The Company's fixed income available-for-sale securities consist of high quality, investment grade securities from diverse issuers with a minimum credit rating of A- and a weighted average credit rating of AA. The Company previously classified these investments as Level 1 because it did not make adjustments to the prices obtained from the Service. However, as the Company values these securities based on pricing from the Service, whose sources may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value; the Company began classifying all of its fixed income available-for-sale securities as Level 2 in the first quarter of 2011. See Note 5 for more information regarding the Company's available-for-sale investments.

The Company measures its cash flow hedges, which are classified as prepaid expenses and other current assets and accrued expenses and other current liabilities, at fair value based on indicative prices in active markets (Level 2 inputs).

As quoted prices in active markets or other observable inputs were not available for the AIG Capped Floater, in order to measure it at fair value, the Company used a discounted cash flow model using a rate reflecting the market risk inherent in holding an AIG security with a similar maturity as evidenced by pricing in the markets. Since utilizing a discounted cash flow model required the Company to make assumptions that were not directly or indirectly observable regarding the AIG Capped Floater's fair value, accordingly it is a Level 3 valuation and is included in the table below.



## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

*Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)*

|  | <b>Short-term<br/>Investments<br/>(in thousands)</b> |
|--|--|
| Balance at December 31, 2010   | \$ 49,340  |
| Decrease in previously recognized unrealized losses included in accumulated other comprehensive income | 448  |
| Balance at March 31, 2011  | \$ 49,788  |

**Table of Contents**

**CITRIX SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*Additional Disclosures Regarding Fair Value Measurements*

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair value due to the short maturity of these items.

**7. STOCK-BASED COMPENSATION**

The Company's stock-based compensation program is a long-term retention program that is intended to attract and reward talented employees and align stockholder and employee interests. As of March 31, 2011, the Company had two stock-based compensation plans under which it was granting stock options and non-vested stock units. The Company is currently granting stock-based awards from its Amended and Restated 2005 Equity Incentive Plan (as amended, the 2005 Plan) and its 2005 Employee Stock Purchase Plan (the 2005 ESPP). In connection with certain of the Company's acquisitions, the Company has assumed several plans from acquired companies. The Company's Board of Directors has provided that no new awards will be granted under the Company's acquired stock plans. The Company's superseded and expired stock plans include the Amended and Restated 1995 Stock Plan, Second Amended and Restated 2000 Director and Officer Stock Option and Incentive Plan and Second Amended and Restated 1995 Non-Employee Director Stock Option Plan. Awards previously granted under these plans and still outstanding typically expire ten years from the date of grant and will continue to be subject to all the terms and conditions of such plans, as applicable.

Under the terms of the 2005 Plan, the Company is authorized to grant incentive stock options (ISOs), non-qualified stock options (NSOs), non-vested stock, non-vested stock units, stock appreciation rights (SARs), and performance units and to make stock-based awards to full and part-time employees of the Company and its subsidiaries or affiliates, where legally eligible to participate, as well as consultants and non-employee directors of the Company. Currently, the 2005 Plan provides for the issuance of a maximum of 37,600,000 shares of common stock. On April 14, 2011, subject to stockholder approval at the 2011 Annual Meeting of Stockholders, the Board of Directors approved an amendment to the 2005 Plan (the Plan Amendment) to (i) increase the aggregate number of shares of Common Stock authorized for issuance under the 2005 Plan by an additional 5,500,000 shares and (ii) increase the aggregate number of shares of Common Stock issuable pursuant to unvested stock, unvested stock units, performance units or stock grants by an additional 1,000,000 shares of Common Stock. Under the 2005 Plan, ISOs must be granted at exercise prices no less than fair market value on the date of grant, except for ISOs granted to employees who own more than 10% of the Company's combined voting power, for which the exercise prices must be no less than 110% of the fair market value at the date of grant. NSOs and SARs must be granted at no less than fair market value on the date of grant, or in the case of SARs in tandem with options, at the exercise price of the related option. Non-vested stock awards may be granted for such consideration in cash, other property or services, or a combination thereof, as determined by the Company's Compensation Committee of its Board of Directors. All stock-based awards, other than the long-term incentive awards discussed below, are exercisable or issuable upon vesting. The Company's policy is to recognize compensation cost for awards with only service conditions and a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. As of March 31, 2011, there were 24,532,002 shares of common stock reserved for issuance pursuant to the Company's stock-based compensation plans and the Company had authorization under its 2005 Plan to grant 12,584,277 additional stock-based awards.

Under the 2005 ESPP, all full-time and certain part-time employees of the Company are eligible to purchase common stock of the Company twice per year at the end of a six-month payment period (a Payment Period). During each Payment Period, eligible employees who so elect may authorize payroll deductions in an amount no less than 1% nor greater than 10% of his or her base pay for each payroll period in the Payment Period. At the end of each Payment Period, the accumulated deductions are used to purchase shares of common stock from the Company up to a maximum of 12,000 shares for any one employee during a Payment Period. Shares are purchased at a price equal to 85% of the fair market value of the Company's common stock on the last business day of a Payment Period. Employees who, after exercising their rights to purchase shares of common stock in the 2005 ESPP, would own shares representing 5% or more of the voting power of the Company's common stock, are ineligible to participate under the 2005 ESPP. The 2005 ESPP provides for the issuance of a maximum of 10,000,000 shares of common stock. As of March 31, 2011, 2,058,845 shares had been issued under the 2005 ESPP. The Company recorded stock-based compensation costs related to the 2005 ESPP of \$0.9 million for the three months ended March 31, 2011.

*Stock-Based Compensation*

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

The detail of the total stock-based compensation recognized by income statement classification is as follows (in thousands):

| <b>Income Statement Classifications</b> | <b>Three Months Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>March 31,</b>          |                  |
|   | <b>2011</b>               | <b>2010</b>      |
| Cost of services revenues               | \$ 268                    | \$ 295           |
| Research and development                | 5,685                     | 13,934           |
| Sales, marketing and services           | 6,032                     | 6,910            |
| General and administrative              | 5,899                     | 3,788            |
| <b>Total</b>                            | <b>\$ 17,884</b>          | <b>\$ 24,927</b> |

**Table of Contents****CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***Stock Options*

Options granted from the 2005 Plan typically have a five-year life and vest over three years at a rate of 33.3% of the shares underlying the option one year from date of grant and at a rate of 2.78% monthly thereafter. The Company currently uses the Black-Scholes option pricing model to determine the fair value of its stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price, as well as assumptions regarding a number of complex and subjective variables. These variables include the Company's expected stock price, volatility over the term of the awards, actual employee exercise behaviors, risk-free interest rate and expected dividends. For purposes of valuing stock options, the Company determined the expected volatility factor by considering the implied volatility in two-year market-traded options of the Company's common stock based on third party volatility quotes in accordance with the provisions of Staff Accounting Bulletin (SAB) No. 107, *Share Based Payment*. The Company's decision to use implied volatility was based upon the availability of actively traded options on the Company's common stock and its assessment that implied volatility is more representative of future stock price trends than historical volatility. The approximate risk free interest rate was based on the implied yield available on U.S. Treasury zero-coupon issues with remaining terms equivalent to the Company's expected term on its options. The expected term of the Company's stock options was based on the historical employee exercise patterns. The Company also periodically analyzes its historical pattern of option exercises based on certain demographic characteristics and determined that there were no meaningful differences in option exercise activity based on the demographic characteristics. The Company does not intend to pay dividends on its common stock in the foreseeable future. Accordingly, the Company used a dividend yield of zero in its option pricing model.

The weighted average fair value of stock options granted during the three months ended March 31, 2011 was \$19.29. The total intrinsic value of options exercised during the three months ended March 31, 2011 was \$57.5 million. The intrinsic value is calculated as the difference between the market value on the date of exercise and the exercise price of the shares. As of March 31, 2011, there was \$61.0 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 2.13 years.

The assumptions used to value option grants are as follows:

|                                     | <b>Three Months Ended</b> |             |
|-------------------------------------|---------------------------|-------------|
|                                     | <b>March 31,</b>          |             |
|                                     | <b>2011</b>               | <b>2010</b> |
| Expected volatility factor          | <b>0.39</b>               | 0.33        |
| Approximate risk free interest rate | <b>1.10%</b>              | 1.45%       |
| Expected term (in years)            | <b>3.27</b>               | 3.16        |
| Expected dividend yield             | <b>0%</b>                 | 0%          |

*Non-vested Stock Units*

Annually, the Company awards senior level employees non-vested performance stock units from the 2005 Plan. The number of non-vested stock units underlying each award is determined one year after the date of the award and is based on achievement of a specific corporate financial performance goal. If the performance goal is less than 90% attained, then no non-vested stock units will be issued pursuant to the authorized award. For performance at and above 90%, the number of non-vested stock units issued is based on a graduated slope, with the maximum number of non-vested stock units issuable pursuant to the award capped at 125% of the base number of non-vested stock units set forth in the award agreement. The Company is required to estimate the attainment that will be achieved related to the defined performance goals and the number of non-vested stock units that will ultimately be awarded in order to recognize compensation expense over the vesting period. If the performance goal is met, the non-vested stock units vest 33.33% on each anniversary subsequent to the date of the award. Each non-vested stock unit, upon vesting, represents the right to receive one share of the Company's common stock. If the performance goals are not met, no compensation cost will ultimately be recognized in that period and any previously recognized compensation cost will be reversed. For awards of non-vested performance stock units made in 2010, the performance goal was achieved within the range of the graduated slope and there was no material adjustment to compensation cost related to non-vested stock units granted to executives.



**Table of Contents**

**CITRIX SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The Company also awards senior-level and certain other employees non-vested stock units from the 2005 Plan that vest based on service. The majority of these non-vested stock units vest 33.33% on each anniversary subsequent to the date of the award. The remaining of these awards vest on the 3<sup>rd</sup> anniversary subsequent to the grant date in their entirety. Each non-vested stock unit, upon vesting, will represent the right to receive one share of the Company's common stock. In addition, the Company awards non-vested stock units to all of its non-employee directors. These units vest monthly in 12 equal installments based on service and, upon vesting, each stock unit represents the right to receive one share of the Company's common stock.

As of March 31, 2011, the number of non-vested stock units outstanding was 1,519,764 and there was \$32.7 million of total unrecognized compensation cost related to non-vested stock units. The unrecognized cost is expected to be recognized over a weighted-average period of 2.25 years.

*Long-term Incentive Plan*

In May 2009, the Company granted certain senior level executives restricted stock unit awards that vest based on market and service conditions as part of a long-term incentive plan. The number of restricted stock units underlying each award is determined at the end of a three-year performance period ending December 31, 2011. In order to vest, the Company's stock price must appreciate by at least ten percent by the end of the performance period. If the Company's stock appreciation is at least ten percent, then the percentage of the restricted stock units that will vest will be determined by comparing the Company's stock price appreciation to the appreciation of the weighted average of two stock market indices comprised of the Standard & Poor's 500 Index (the S&P 500), which has been assigned a two-thirds weighting, and the iShares Standard & Poor's North America Technology Index (the IGM), which has been assigned a one-third weighting. Based on the level of performance, up to 200% of the award may vest. After vesting, the shares underlying the award will be issued at the earliest of six months and one day after the participant's separation from the Company (other than termination for cause), the participant's death, or the effective date of a change in control of the Company. In the event of a change in control of the Company prior to the end of the performance period, the payout of any award is limited to a prorated portion of such award based upon a performance assessment prior to the change in control date.

The market condition requirements are reflected in the grant date fair value of the award, and the compensation expense for the award will be recognized assuming that the requisite service is rendered regardless of whether the market conditions are achieved. The grant date fair value of the restricted stock unit awards was determined through the use of a Monte Carlo simulation model, which utilizes multiple input variables that determine the probability of satisfying the market condition requirements applicable to each award.

The estimated fair value of each award was \$24.16 as of the date of grant. As of March 31, 2011, the number of restricted stock units granted pursuant to these awards was 175,667 and there was \$0.6 million of total unrecognized compensation cost related to restricted stock unit awards. The unrecognized cost is expected to be recognized over 0.75 years.

**8. GOODWILL AND OTHER INTANGIBLE ASSETS**

*Goodwill*

The Company accounts for goodwill in accordance with the authoritative guidance, which requires that goodwill and certain intangible assets are not amortized, but are subject to an annual impairment test. There was no impairment of goodwill as a result of the annual impairment tests completed during the fourth quarter of 2010. Excluding goodwill, the Company has no intangible assets deemed to have indefinite lives. See Note 4 for acquisitions and Note 10 for segment information.

Table of Contents

## CITRIX SYSTEMS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the change in goodwill allocated to the Company's reportable segments during the three months ended March 31, 2011 (in thousands):

|                          | Balance at<br>January 1,<br>2011 | Additions                 | Other <sup>(2)</sup> | Balance at<br>March 31,<br>2011 |
|--------------------------|----------------------------------|---------------------------|----------------------|---------------------------------|
| Enterprise division      | \$ 733,720                       | \$ 6,364                  | \$                   | \$ 740,084                      |
| Online Services division | 187,380                          | 108,644                   | 4,440                | 300,464                         |
| Consolidated             | \$ 921,100                       | \$ 115,008 <sup>(1)</sup> | \$ 4,440             | \$ 1,040,548                    |

<sup>(1)</sup> Amount primarily relates to acquisitions. See Note 4 for more information regarding the Company's acquisitions.

<sup>(2)</sup> Amount primarily includes foreign currency translation.

*Intangible Assets*

The Company has intangible assets with finite lives that are recorded at cost, less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets, generally three to seven years, except for patents, which are amortized over the lesser of their remaining life or ten years. Intangible assets consist of the following (in thousands):

|                                   | March 31, 2011              |                             | December 31, 2010           |                             |
|-----------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| Product related intangible assets | \$ 339,500                  | \$ 230,605                  | \$ 332,878                  | \$ 218,915                  |
| Other                             | 208,844                     | 118,818                     | 178,395                     | 114,214                     |
| Total                             | \$ 548,344                  | \$ 349,423                  | \$ 511,273                  | \$ 333,129                  |

Amortization of product related intangible assets, which consists primarily of product related technologies and patents, was \$12.7 million and \$12.4 million for the three months ended March 31, 2011 and 2010, respectively, and is classified as a component of cost of net revenues on the accompanying condensed consolidated statements of income. Amortization of other intangible assets, which consist primarily of customer relationships, trade names and covenants not to compete was \$3.5 and \$4.2 million for the three months ended March 31, 2011 and 2010, respectively, and is classified as a component of operating expenses on the accompanying condensed consolidated statements of income. Estimated future amortization expense is as follows (in thousands):

|                          |           |
|--------------------------|-----------|
| Year ending December 31, |           |
| 2011                     | \$ 60,305 |
| 2012                     | 45,129    |

|      |        |
|------|--------|
| 2013 | 38,320 |
| 2014 | 31,644 |
| 2015 | 11,707 |

**9. CREDIT FACILITY**

Effective on August 9, 2005, the Company entered into a revolving credit facility (the Credit Facility ) with a group of financial institutions (the Lenders ). Effective September 27, 2006, the Company entered into an amendment and restatement of its Credit Facility (the Amendment ). The Amendment decreased the overall range of interest rates the Company must pay on amounts outstanding on the Credit Facility and lowered the facility fee. In addition, the Amendment extended the term of the Credit Facility. The Credit Facility, as amended, allows the Company to increase the revolving credit commitment up to a maximum aggregate revolving credit commitment of \$175.0 million. The Credit Facility, as amended, will expire on September 27, 2011 and it currently provides for a revolving line of credit in the aggregate amount of \$100.0 million, subject to continued covenant compliance. A portion of the revolving line of credit (i) in the aggregate amount of \$25.0 million may be available for issuances of letters of credit and (ii) in the aggregate amount of \$15.0 million may be available for swing line loans. The Credit Facility, as amended, currently bears interest at the London Interbank Offered Rate ( LIBOR ) plus 0.32% and adjusts in the range of 0.32% to 0.80% above LIBOR based on the level of the Company s total debt and its adjusted earnings before interest, taxes, depreciation and amortization ( EBITDA ) as defined in the agreement. In addition, the Company is required to pay a quarterly facility fee ranging from 0.08% to 0.20% based on the aggregate amount available under the Credit Facility, as amended, and the level of the Company s total debt and its adjusted EBITDA. Borrowings under the Credit Facility, as amended, are guaranteed by the Company and certain of the Company s U.S. and



**Table of Contents****CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

foreign subsidiaries, which guarantees are secured by a pledge of shares of certain foreign subsidiaries. During the three months ended March 31, 2011, no borrowings were made under the Credit Facility, as amended, and as of March 31, 2011, there were no amounts outstanding under the Credit Facility, as amended.

The Credit Facility, as amended, contains customary default provisions, and the Company must comply with various financial and non-financial covenants. The financial covenants consist of a minimum interest coverage ratio and a maximum consolidated leverage ratio. The primary non-financial covenants contain certain limits on the Company's ability to pay dividends, conduct certain mergers or acquisitions, make certain investments and loans, incur future indebtedness or liens, alter the Company's capital structure or sell stock or assets. As of March 31, 2011, the Company was in compliance with all covenants of the Credit Facility.

**10. SEGMENT INFORMATION**

The Company's revenues are derived from sales of its Enterprise division products which include its Desktop Solutions, Datacenter and Cloud Solutions and related technical services and from sales of its Online Services division's web collaboration, connectivity and remote support services. The Enterprise division and the Online Services division constitute the Company's two reportable segments.

The Company does not engage in intercompany revenue transfers between segments. The Company's chief operating decision maker ( CODM ) evaluates the Company's performance based primarily on profitability from its Enterprise division products and Online Services division services. Segment profit for each segment includes certain research and development, sales, marketing, general and administrative expenses directly attributable to the segment as well as other corporate costs allocated to the segment and excludes certain expenses that are managed outside of the reportable segments. Costs excluded from segment profit primarily consist of certain restructuring charges, stock-based compensation costs, amortization of product related technology, amortization of other intangible assets, net interest and other income, net. Accounting policies of the Company's segments are the same as its consolidated accounting policies.

Net revenues and segment profit, classified by the Company's two reportable segments were as follows (in thousands):

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2011</b>                             | <b>2010</b> |
| Net revenues:                           |   |             |
| Enterprise division                     | <b>\$ 391,116</b>                       | \$ 329,322  |
| Online Services division                | <b>99,772</b>                           | 84,950      |
| Consolidated                            | <b>\$ 490,888</b>                       | \$ 414,272  |
| Segment profit:                         |   |             |
| Enterprise division                     | <b>\$ 100,449</b>                       | \$ 75,458   |
| Online Services division                | <b>14,550</b>                           | 18,559      |
| Unallocated expenses (1):               |   |             |
| Amortization of intangible assets       | <b>(16,208)</b>                         | (16,515)    |
| Restructuring                           | <b>(24)</b>                             | (500)       |
| Net interest and other income           | <b>7,572</b>                            | 3,933       |
| Stock-based compensation                | <b>(17,884)</b>                         | (24,927)    |
| Consolidated income before income taxes | <b>\$ 88,455</b>                        | \$ 56,008   |

- <sup>(1)</sup> Represents expenses presented to management on a consolidated basis only and not allocated to the operating segments.

**Table of Contents****CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***Revenues by Product Grouping*

During the third quarter of 2010, the Company began reporting technical services revenue included in the Company's Enterprise division, which is comprised primarily of consulting and education services separately from the Desktop Solutions and Datacenter and Cloud Solutions product revenue groupings included in the Company's Enterprise division, as indicated in the table below. In addition, previously reported results have been restated to conform to the 2011 presentation.

Revenues by product grouping for the Company's Enterprise division and Online Services division were as follows (in thousands):

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
| Net revenues:  |   |             |
| Enterprise division                                    |   |             |
| Desktop Solutions revenues <sup>(1)</sup>              | <b>\$ 289,116</b>                       | \$ 255,910  |
| Datacenter and Cloud Solutions revenues <sup>(2)</sup> | <b>77,667</b>                           | 58,205      |
| Enterprise technical services <sup>(3)</sup>           | <b>19,478</b>                           | 10,606      |
| Other  | <b>4,855</b>                            | 4,601       |
| Total Enterprise division revenues                     | <b>391,116</b>                          | 329,322     |
| Online Services division revenues                      | <b>99,772</b>                           | 84,950      |
| Total net revenue                                      | <b>\$ 490,888</b>                       | \$ 414,272  |

<sup>(1)</sup> Desktop Solutions revenues are primarily comprised of sales from the Company's desktop virtualization product, XenDesktop, and the Company's application virtualization product, XenApp, and related technical support.

<sup>(2)</sup> Datacenter and Cloud Solutions revenues are primarily comprised of sales from the Company's application networking products which include NetScaler, Access Gateway and Branch Repeater and the Company's virtual infrastructure products which include XenServer and Essentials for Hyper-V and related maintenance.

<sup>(3)</sup> Technical services revenues are primarily comprised of revenues from consulting and education services.

*Revenues by Geographic Location*

The following table presents revenues by segment and geographic location, for the following periods (in thousands):

|                     | <b>Three Months Ended<br/>March 31,</b> |             |
|---------------------|---|-------------|
|                     | <b>2011</b>                             | <b>2010</b> |
| Net revenues:       |   |             |
| Enterprise division |   |             |
| Americas            | <b>\$ 217,472</b>                       | \$ 177,732  |

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

|   |                   |            |
|---|-------------------|------------|
| EMEA                                    | <b>133,373</b>    | 119,355    |
| Asia-Pacific                            | <b>40,271</b>     | 32,235     |
| Total Enterprise division revenues      | <b>391,116</b>    | 329,322    |
| Online Services division                |                   |            |
| Americas                                | <b>88,290</b>     | 78,191     |
| EMEA                                    | <b>9,287</b>      | 5,297      |
| Asia-Pacific                            | <b>2,195</b>      | 1,462      |
| Total Online Services division revenues | <b>99,772</b>     | 84,950     |
| Total net revenue                       | <b>\$ 490,888</b> | \$ 414,272 |

**Table of Contents****CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

Identifiable assets classified by the Company's reportable segments are shown below. Long-lived assets consist of property and equipment, net, and are shown below.

|                           | March 31, 2011 | December 31, 2010 |
|---------------------------|----------------|-------------------|
|                           | (In thousands) |                   |
| Identifiable assets:      |                |                   |
| Enterprise division       | \$ 3,274,212   | \$ 3,386,392      |
| Online Services division  | 478,353        | 317,208           |
| Total identifiable assets | \$ 3,752,565   | \$ 3,703,600      |

The increase in identifiable assets in the Online Services segment is primarily due to an increase in goodwill and intangibles associated with the Netviewer Acquisition. See Note 4 for additional information regarding the Company's acquisitions.

**11. RESTRUCTURING**

During the first quarter of 2009, the Company announced a restructuring program and reduced its headcount by approximately 450 full-time positions. The restructuring program was completed in 2009. Total costs incurred to date were \$27.5 million, of which \$26.3 million was related to the Company's Enterprise division and \$1.2 million was related to its Online Services division.

Restructuring charges related to the reduction of the Company's headcount and non-cancelable lease costs related to the consolidation and exiting of excess facilities were not material for the three months ended March 31, 2011 and \$0.5 million during the three months ended March 31, 2010. All charges for the periods presented are attributable to the Company's Enterprise division.

*Restructuring accruals*

As of March 31, 2011, the \$0.9 million in outstanding restructuring liability relates to non-cancelable lease costs related to the consolidation of excess facilities that the Company expects to pay over the lives of the related obligations through fiscal 2012, all of which were related to the Company's Enterprise division.

The activity in the Company's restructuring accruals for the three months ended March 31, 2011 is summarized as follows (in thousands):

|   |              |
|---|--------------|
|   | <b>Total</b> |
| Balance at January 1, 2011                                  | \$ 1,275     |
| Employee severance and related costs                        | 24           |
| Adjustments to non-cancelable lease costs and other charges |              |
| Payments  | (403)        |
| Reversal of previous charges                                |              |
| Balance at March 31, 2011                                   | \$ 896       |

**12. DERIVATIVE FINANCIAL INSTRUMENTS**

*Cash Flow Hedges*

As of March 31, 2011, the Company's derivative assets and liabilities resulted from cash flow hedges related to its forecasted operating expenses transacted in local currencies. A substantial portion of the Company's overseas expenses are and will continue to be transacted in local currencies. To protect against fluctuations in operating expenses and the volatility of future cash flows caused by changes in currency exchange rates, the Company has established a program that uses foreign exchange forward contracts to hedge its exposure to these potential changes. The terms of these instruments, and the hedged transactions to which they relate, generally do not exceed 12 months and the maximum term is 18 months.

Generally, when the dollar is weak, foreign currency denominated expenses will be higher, and these higher expenses will be partially offset by the gains realized from the Company's hedging contracts. Conversely, if the dollar is strong, foreign currency denominated expenses will be lower. These lower expenses will in turn be partially offset by the losses incurred from the Company's hedging contracts. The change in the derivative component in accumulated other comprehensive income includes unrealized gains or losses that arose from changes in market value of the effective portion of derivatives that were held during the period, and gains or losses that were previously unrealized but have been recognized in the same line item as the forecasted transaction in current period net income due to termination or maturities of derivative contracts. This reclassification has no effect on total comprehensive income or equity.

**Table of Contents****CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The total cumulative unrealized gain on cash flow derivative instruments was \$8.9 million and \$6.1 million at March 31, 2011 and December 31, 2010, respectively, and is included in accumulated other comprehensive income in the accompanying condensed consolidated balance sheets. The net unrealized gain as of March 31, 2011 is expected to be recognized in income over the next twelve months at the same time the hedged items are recognized in income.

As of March 31, 2011, the Company had the following net notional foreign currency forward contracts outstanding (in thousands):

|   | <b>Currency<br/>Denomination</b> |
|---|----------------------------------|
| <b>Foreign Currency</b>                     |                                  |
| Australian dollars                          | AUD 10,321                       |
| British pounds sterling                     | GBP 20,128                       |
| Canadian dollars                            | CAD 4,319                        |
| Chinese renminbi                            | CNY 33,777                       |
| Euro  | EUR 34,164                       |
| Hong Kong dollars                           | HKD 52,583                       |
| Indian rupees                               | INR 509,091                      |
| Japanese yen                                | JPY 890,036                      |
| Singapore dollars                           | SGD 5,133                        |
| Swiss francs                                | CHF 19,939                       |
| <i>Derivatives not Designated as Hedges</i> |                                  |

The Company utilizes certain derivative instruments that either do not qualify or are not designated for hedge accounting treatment under the authoritative guidance. Accordingly, changes in the fair value of these contracts are recorded in other income, net.

A substantial portion of the Company's overseas assets and liabilities are and will continue to be denominated in local currencies. To protect against fluctuations in earnings caused by changes in currency exchange rates when remeasuring the Company's balance sheet, it utilizes foreign exchange forward contracts to hedge its exposure to this potential volatility. There were no outstanding assets or liabilities related to derivatives not designated as hedges as of March 31, 2011 and December 31, 2010.

*Fair Values of Derivative Instruments*

| <b>Derivatives Designated as</b>   | <b>Asset Derivatives</b>                  |                       |   |                       | <b>Liability Derivatives</b>                               |                       |  |                       |
|------------------------------------|---|-----------------------|---|-----------------------|--|-----------------------|--|-----------------------|
|                                    | <b>(In thousands)</b>                     |                       |   |                       |  |                       |  |                       |
|                                    | <b>March 31, 2011</b>                     |                       | <b>December 31, 2010</b>                  |                       | <b>March 31, 2011</b>                                      |                       | <b>December 31, 2010</b>                                   |                       |
|                                    | <b>Balance Sheet<br/>Location</b>         | <b>Fair<br/>Value</b> | <b>Balance Sheet<br/>Location</b>         | <b>Fair<br/>Value</b> | <b>Balance Sheet<br/>Location</b>                          | <b>Fair<br/>Value</b> | <b>Balance Sheet<br/>Location</b>                          | <b>Fair<br/>Value</b> |
| <b>Hedging Instruments</b>         |   |                       |   |                       |  |                       |  |                       |
|                                    | Prepaid<br>and other<br>current<br>assets |                       | Prepaid<br>and other<br>current<br>assets |                       | Accrued<br>expenses<br>and other<br>current<br>liabilities |                       | Accrued<br>expenses<br>and other<br>current<br>liabilities |                       |
| Foreign currency forward contracts |   | \$13,554              |   | \$13,192              |  | \$4,040               |  | \$6,745               |

*The Effect of Derivative Instruments on Financial Performance*

For the Three Months ended March 31,  
(In thousands)

| Derivatives in Cash Flow           | Amount of Gain (Loss) Recognized in Other Comprehensive Income (Effective Portion) |            | Location of Loss Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion) | Amount of Loss Reclassified from Accumulated Other Comprehensive Income (Effective Portion) |            |
|------------------------------------|--|------------|---|---|------------|
|                                    | 2011   | 2010       |   | 2011  | 2010       |
| Hedging Relationships              |  |            |   |   |            |
| Foreign currency forward contracts | \$ 2,837   | \$ (6,471) | Operating expenses  | \$ (620)  | \$ (3,522) |



**Table of Contents****CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

There was no material ineffectiveness in the Company's foreign currency hedging program in the periods presented.

| Derivatives Not Designated as Hedging Instruments | Location of<br>Income (Loss) Recognized in Income on<br>Derivatives | For the Three Months ended March 31,<br>(In thousands)              |         |
|---|---|---|---------|
|   |   | Amount of Gain (Loss)<br>Income Recognized in Income on Derivatives |         |
|   |   | 2011  | 2010    |
| Foreign currency forward contracts                | Other income, net   | \$ 866  | \$ (94) |

**13. COMPREHENSIVE INCOME**

The components of comprehensive income, net of tax, are as follows (in thousands):

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2011                            | 2010      |
| Net income attributable to Citrix Systems, Inc.                     | \$ 73,503                       | \$ 47,349 |
| Other comprehensive income:   |                                 |           |
| Change in unrealized gain on available-for-sale securities          | 641                             | 2,716     |
| Net change due to derivative instruments                            | 2,837                           | (6,471)   |
| Foreign currency translation adjustments                            | 5,433                           | 140       |
| Comprehensive income  | 82,414                          | 43,734    |
| Less: Comprehensive income attributable to non-controlling interest | 156                             |           |
| Comprehensive income attributable to Citrix Systems, Inc.           | \$ 82,258                       | \$ 43,734 |

The components of accumulated other comprehensive income, net of tax, are as follows (in thousands):

|   | March 31,<br>2011 | December 31,<br>2010 |
|---|-------------------|----------------------|
| Unrealized gain on available-for-sale securities    | \$ 1,273          | \$ 632               |
| Unrealized gain on derivative instruments           | 8,920             | 6,083                |
| Cumulative foreign currency translation adjustments | 4,547             | (886)                |
| Other comprehensive loss on pension liability       | (3,806)           | (3,806)              |
| Accumulated other comprehensive income              | \$ 10,934         | \$ 2,023             |

**14. INCOME TAXES**

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

The Company's net unrecognized tax benefits totaled approximately \$65.1 million and \$63.9 million as of March 31, 2011 and December 31, 2010, respectively. There was \$1.3 million included in the balance at March 31, 2011 for tax positions which would affect the annual effective tax rate. During the quarter ended March 31, 2011, the Company recognized \$0.1 million of expense related to interest, which is included in income tax expense. The Company has approximately \$1.4 million for the payment of interest and penalties accrued at March 31, 2011.

The Company and one or more of its subsidiaries is subject to federal income taxes in the United States, as well as income taxes of multiple state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2004.

In June 2010, the Company reached a settlement in principle with the Internal Revenue Service ( IRS ) regarding certain previously disclosed income tax deficiencies asserted in a Revenue Agent's Report (the RAR ). Under the terms of the settlement in principle, the Company would agree to an assessment of income tax deficiencies in full settlement of all open claims under the RAR and would resolve with finality for future years all of the transfer pricing issues raised in the RAR. Based on this, the Company

---

**Table of Contents**

**CITRIX SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

incurred a charge of \$13.1 million in 2010 in accordance with the authoritative guidance. Among other things, the authoritative guidance requires application of a more likely than not threshold to the recognition and non-recognition of tax positions. It further requires that a change in management judgment related to prior years tax positions be recognized in the quarter of such change.

The final settlement requires the finalization of tax deficiency calculations with the IRS and a written agreement signed by the IRS. This process could take several more months to complete. There can be no assurances that a final written agreement will be obtained or that this matter will otherwise be resolved in our favor. An adverse outcome of this matter could have a material adverse effect on our results of operations and financial condition.

In the ordinary course of global business, there are transactions for which the ultimate tax outcome is uncertain; thus, judgment is required in determining the worldwide provision for income taxes. The Company provides for income taxes on transactions based on its estimate of the probable liability. The Company adjusts its provision as appropriate for changes that impact its underlying judgments. Changes that impact provision estimates include such items as jurisdictional interpretations on tax filing positions based on the results of tax audits and general tax authority rulings. Due to the evolving nature of tax rules combined with the large number of jurisdictions in which the Company operates, it is possible that the Company's estimates of its tax liability and the realizability of its deferred tax assets could change in the future, which may result in additional tax liabilities and adversely affect the Company's results of operations, financial condition and cash flows.

The Company is required to estimate its income taxes in each of the jurisdictions in which it operates as part of the process of preparing its condensed consolidated financial statements. At March 31, 2011, the Company had approximately \$120.7 million in deferred tax assets. The authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company reviews deferred tax assets periodically for recoverability and makes estimates and judgments regarding the expected geographic sources of taxable income and gains from investments, as well as tax planning strategies in assessing the need for a valuation allowance.

The Company maintains certain operational and administrative processes in overseas subsidiaries and its foreign earnings are taxed at lower foreign tax rates. The Company does not expect to remit earnings from its foreign subsidiaries. The increase in the effective tax rate when comparing the three months ended March 31, 2011 to the three months ended March 31, 2010 was primarily due to a reduction in tax benefits from disqualifying dispositions of incentive stock options. The Company's effective tax rate was approximately 17.1% for the three months ended March 31, 2011 and 15.5% for the three months ended March 31, 2010.

**15. TREASURY STOCK**

*Stock Repurchase Programs*

The Company's Board of Directors authorized an ongoing stock repurchase program with a total repurchase authority granted to the Company of \$3.0 billion, of which \$500.0 million was approved in April 2011. The Company may use the approved dollar authority to repurchase stock at any time until the approved amount is exhausted. The objective of the Company's stock repurchase program is to improve stockholders' returns. At March 31, 2011, approximately \$11.5 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock. A portion of the funds used to repurchase stock over the course of the program was provided by proceeds from employee stock option exercises and the related tax benefit.

The Company is authorized to make open market purchases of its common stock using general corporate funds. Additionally, from time to time, the Company may enter into structured stock repurchase arrangements with large financial institutions using general corporate funds in order to lower the average cost to acquire shares. These programs include terms that require the Company to make up-front payments to the counterparty financial institution and result in the receipt of stock during or at the end of the term of the agreement or the receipt of either stock or cash at the maturity of the agreement, depending on market conditions.

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

During the three months ended March 31, 2011, the Company expended approximately \$100.0 million on open market purchases, repurchasing 1,452,100 shares of outstanding common stock at an average price of \$68.83. As of March 31, 2011, the Company did not have any prepaid notional amounts under structured stock repurchase programs and it did not make any up-front payments to financial institutions related to structured stock repurchase agreements.

During the three months ended March 31, 2010, the Company expended approximately \$100.0 million on open market purchases, repurchasing 2,288,600 shares of outstanding common stock at an average price of \$43.69.

---

**Table of Contents**

**CITRIX SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*Shares for Tax Withholding*

During the three months ended March 31, 2011, the Company withheld 124,595 shares from stock units that vested totaling \$8.8 million to satisfy tax withholding obligations that arose on the vesting of stock units. These shares are reflected as treasury stock in the Company's condensed consolidated balance sheets and the related cash outlays reduce the Company's total stock repurchase authority.

During the three months ended March 31, 2010, the Company withheld 60,475 shares from stock units that vested totaling \$2.7 million to satisfy tax withholding obligations that arose on the vesting of stock units. These shares are reflected as treasury stock in the Company's condensed consolidated balance sheets and the related cash outlays reduce the Company's total stock repurchase authority.

**16. COMMITMENTS AND CONTINGENCIES**

*Leases*

The Company leases certain office space and equipment under various operating leases. In addition to rent, the leases require the Company to pay for taxes, insurance, maintenance and other operating expenses. Certain of these leases contain stated escalation clauses while others contain renewal options. The Company recognizes rent expense on a straight-line basis over the term of the lease, excluding renewal periods, unless renewal of the lease is reasonably assured.

The Company has operating lease obligations through 2018 related to two properties that are not utilized. At March 31, 2011, the total remaining obligation on these leases was approximately \$6.3 million, of which \$2.8 million was accrued as of March 31, 2011, and is reflected in accrued expenses and other current liabilities and other liabilities in the accompanying condensed consolidated balance sheets. In calculating these accruals, the Company made estimates, based on market information, including the estimated vacancy periods and sublease rates and opportunities. The Company periodically re-evaluates its estimates related to these vacant facilities.

*Legal Matters*

Due to the nature of the Company's business, it is subject to patent infringement claims, including current suits against it or one or more of its wholly-owned subsidiaries alleging infringement by various Citrix products and services. The Company believes that it has meritorious defenses to the allegations made in its pending cases and intends to vigorously defend these lawsuits; however, it is unable currently to determine the ultimate outcome of these or similar matters or the potential exposure to loss, if any.

In addition, the Company is a defendant in various litigation matters generally arising out of the normal course of business. Although it is difficult to predict the ultimate outcomes of these cases, the Company believes that the ultimate outcomes will not materially affect its business, financial position, results of operations or cash flows.

*Guarantees*

The authoritative guidance requires certain guarantees to be recorded at fair value and requires a guarantor to make disclosures, even when the likelihood of making any payments under the guarantee is remote. For those guarantees and indemnifications that do not fall within the initial recognition and measurement requirements of the authoritative guidance, the Company must continue to monitor the conditions that are subject to the guarantees and indemnifications, as required under existing generally accepted accounting principles, to identify if a loss has been incurred. If the Company determines that it is probable that a loss has been incurred, any such estimable loss would be recognized. The initial recognition and measurement requirements do not apply to the provisions contained in the majority of the Company's software license agreements that indemnify licensees of the Company's software from damages and costs resulting from claims alleging that the Company's software infringes the intellectual property rights of a third party. The Company has not made payments pursuant to these provisions. The Company has not identified any losses that are probable under these provisions and, accordingly, the Company has not recorded a liability

related to these indemnification provisions.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Our operating results and financial condition have varied in the past and could in the future vary significantly depending on a number of factors. From time to time, information provided by us or statements made by our employees contain forward-looking information that involves risks and uncertainties. In particular, statements contained in this Quarterly Report on Form 10-Q, and in the documents incorporated by reference into this Quarterly Report on Form 10-Q, that are not historical facts, including, but not limited to, statements concerning new products, development and offerings of products and services, including our Desktop Solutions, Online Services and Datacenter and Cloud Solutions, market positioning, Network, Product Licenses, License Updates, Technical Services, financial information and results of operations for future periods, product and price competition, competition and strategy, employees, suppliers, contract manufacturers, product price and inventory, government regulation (including the FCC), seasonal factors, natural disasters, stock-based compensation, licensing and subscription renewal programs, computer system enhancements, international operations and expansion, obsolete materials charges, valuations of investments and derivative instruments, technology relationships, open source software, reinvestment or repatriation of foreign earnings, fluctuations in foreign exchange rates, contractual obligations, our Credit Facility, tax rates and deductions, tax liabilities and benefits, transfer pricing, the finalization of our tax settlement and written agreement with the IRS, the Netviewer acquisition, the FASB's authoritative guidance, leasing activities and obligations, stock repurchases, investment transactions (including our investment in bonds issued by AIG Matched Funding Corporation (the AIG Capped Floater)), changes in domestic and foreign economic conditions and credit markets, restructuring activities (including our 2009 Strategic Restructuring Program), delays or reductions in technology purchases, acquired in-process technology, liquidity, litigation matters, intellectual property matters, distribution channels, stock price, payment of dividends, price protection rights, proprietary technology, security measures, third party licenses, and potential debt or equity financings constitute forward-looking statements and are made under the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are neither promises nor guarantees. Our actual results of operations and financial condition have varied and could in the future vary materially from those stated in any forward-looking statements. The factors described in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2010, as updated in Part II, Item 1A in this Quarterly Report on Form 10-Q, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Quarterly Report on Form 10-Q, in the documents incorporated by reference into this Quarterly Report on Form 10-Q or presented elsewhere by our management from time to time. Such factors, among others, could have a material adverse effect upon our business, results of operations and financial condition. We caution readers not to place undue reliance on any forward-looking statements, which only speak as of the date made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

**Executive Summary***Overview*

Management's discussion and analysis of financial condition and results of operations is intended to help the reader understand our financial condition and results of operations. This section is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for the three months ended March 31, 2011. The results of operations for the periods presented in this report are not necessarily indicative of the results expected for the full year or for any future period, due in part to the seasonality of our business. Historically, our revenue for the fourth quarter of any year is typically higher than our revenue for the first quarter of the subsequent year.

We design, develop and market technology solutions that enable IT services to be securely delivered on demand independent of location, device or network. Our customers achieve lower IT operating costs, increased information security, and greater business agility using Citrix technologies that enable virtual computing. We market and license our products directly to enterprise customers, over the web, and through systems integrators, or SIs, in addition to indirectly through value-added resellers, or VARs, value-added distributors, or VADs, and original equipment manufacturers, or OEMs.

Our solutions can fundamentally change an information technology organization's approach and strategic value, transforming IT into an on-demand service by centralizing the delivery of applications and desktops, and by providing and enabling software-as-a-service. Further, this approach to IT transforms data centers, making them far more flexible to adapt to the changing needs of an enterprise.

We believe our approach is unique in the market because we have combined innovative technologies in the area of desktop management, including but not limited to desktop virtualization and application virtualization, marketed as our Desktop Solutions, and

## **Table of Contents**

server virtualization, application networking and optimization, marketed as our Datacenter and Cloud Solutions, to deliver a comprehensive end-to-end application delivery solution, and one that, when considered as a whole, is competitively differentiated by its feature set and interoperability.

We saw uncertainties surrounding IT spending, particularly in the European markets in 2010. This trend has continued in 2011 as we still see uneven demand in many European countries, especially in the public sector. This overall economic uncertainty may adversely affect sales of our products and services and may result in longer sales cycles, slower adoption of technologies and increased price competition, particularly in Europe.

In today's business environment, however, there is a sharp focus on IT products and services that can reduce cost and deliver a quick, tangible return on investment, or ROI. With our customers focused on economic value in technology solutions, we intend to continue highlighting our solutions' abilities to reduce IT costs, increase business flexibility and deliver ROI with a simpler more flexible approach to computing.

Our Desktop Solutions are built to transform and reduce the cost of traditional desktop management by virtualizing the desktop, with our XenDesktop product, and virtualizing applications, with our XenApp product, in a customer's datacenter. We are moving the delivery of desktops and related applications to an on-demand service as opposed to the delivery of a device. We continue to see growing customer interest in XenDesktop and, in addition, by making the XenDesktop trade-up program a standard program, we are maximizing our XenApp install base and driving continued XenDesktop adoption.

Our Datacenter and Cloud Solutions, which include our application networking products and our server virtualization products, can alter the traditional economies of the datacenter by providing much greater levels of flexibility of computing resources, especially with respect to servers, by improving application performance and thereby reducing the amount of processing power involved, and allowing easy reconfiguration of servers by allowing storage and network infrastructure to be added in virtually rather than physically. Our application networking products are also enhancing our differentiation and driving customer interest around desktop virtualization, as enterprises are finding good leverage in deploying these technologies together.

Our Online Services division is focused on developing and marketing Web-based access, support and collaboration services. These services are primarily marketed via the Web to large enterprises, medium and small businesses, prosumers and individuals. Our Online Services division's web collaboration services offer secure and cost-effective solutions that allow users to host and actively participate in online meetings, webinars and training sessions remotely and reduce costs associated with business travel. Our remote access solution offers a secure, simple and cost efficient way for users to access their desktops remotely, and our remote support solutions offer secure, on-demand support over the Internet.

In addition, we expect to continue to grow our Online Services division by increasing our addressable market geographically and offering services that appeal to a wider range of customers. To accelerate the European expansion of our Online Services division, in February 2011, we acquired Netviewer AG, or Netviewer, a privately held European SaaS vendor in collaboration and IT services. Netviewer will become part of our Online Services division and enable the extension of our SaaS leadership in Europe.

Our priorities for 2011 are to sustain the long-term growth of our businesses and enhance our current solutions through technological innovation, engineering excellence, selective and strategic acquisition of technology, talent and/or companies, and through a commitment to delivering high-quality products and services to customers and partners.

We expect to continue to make strategic investments in research and development of existing and new products, and to invest in research and development of advanced and innovative technologies for future application, including increasing research and development capacity and headcount. We believe that delivering innovative and high-value solutions through our Enterprise division's products and our Online Services division's services is the key to meeting customer and partner needs and achieving our future growth. We also intend to continue making significant investments to expand our brand awareness in virtualization, networking and cloud computing spaces. We also plan to increase sales, consulting and technical services capacity and headcount to support larger strategic customer engagements and more focus on SI partnerships as well as investing in new channel programs that allow our partners to upgrade their capabilities in desktop virtualization, which we currently believe is our largest area of opportunity.

### *Summary of Results*

For the three months ended March 31, 2011 compared to the three months ended March 31, 2010, a summary of our results is as follows:



## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Product license revenue increased 22.5% to \$150.3 million;

License updates revenue increased 9.2% to \$177.9 million;

Online services revenue increased 17.4% to \$99.8 million;

Technical services revenue increased 44.2% to \$63.0 million;

Operating income increased to \$80.9 million; and

Diluted earnings per share increased to \$0.38.

**Table of Contents**

The increase in our Product license revenue was driven by increased sales of our Desktop Solutions products, led by XenDesktop, and our Datacenter and Cloud Solutions products, led by NetScaler. We currently expect our Product license revenue to increase when comparing the second quarter of 2011 to the first quarter of 2011. The increase in License updates revenue was primarily driven by an increase in new Subscription Advantage license sales, led by increased XenDesktop product sales. Our Online services revenue increased due to increased sales of our web collaboration services, including early results from our acquisition of Netviewer. Technical services revenue increased due to increases in support revenues of \$10.4 million driven by increased sales of our support related to our Datacenter and Cloud Solutions and an increase in sales of consulting services related to our Enterprise division's products. We currently expect that total revenue will increase when comparing the second quarter of 2011 to the first quarter of 2011, as well as when comparing the 2011 fiscal year to the 2010 fiscal year. The increase in operating income is primarily due to an increase in gross margin attributable to an increase in total revenues due to the factors discussed above.

*2011 Acquisitions**Netviewer AG*

In February 2011, we acquired all of the issued and outstanding securities of Netviewer AG, or the Netviewer Acquisition or Netviewer, a privately held European software-as-a-service, or SaaS vendor in collaboration and IT services. Netviewer became part of our Online Services division and the acquisition will enable the extension of our SaaS business in Europe. The total preliminary consideration for this transaction was approximately \$107.5 million, net of \$6.3 million of cash acquired, and was payable in cash. Transaction costs associated with the acquisition were approximately \$2.4 million, of which we expensed \$0.4 million during the first quarter of 2011 and is included in general and administrative expense our condensed consolidated statement of income. In addition, in connection with the acquisition, we converted and assumed approximately 99,100 non-vested stock units for which the vesting period reset fully upon the closing of the transaction.

Revenues from Netviewer are included in our Online Services division's revenue. We have included the effect of the Netviewer Acquisition in our results of operations prospectively from the date of the acquisition, which effect was not material to our consolidated results. Accordingly, pro forma financial disclosures have not been presented.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

|   | Fair Value<br>(in thousands) | Weighted<br>Average<br>Asset<br>Life |
|---|------------------------------|--------------------------------------|
| Current assets  | \$ 12,347                    |                                      |
| Other assets  | 330                          |                                      |
| Property and equipment                                  | 3,218                        | Various                              |
| Intangible assets                                       | 28,806                       | 4-7 years                            |
| Goodwill  | 108,644                      | Indefinite                           |
| Assets acquired   | 153,345                      |                                      |
| Current liabilities assumed                             | (18,952)                     |                                      |
| Long-term liabilities assumed                           | (11,949)                     |                                      |
| Deferred tax liabilities, non-current                   | (8,606)                      |                                      |
| Net assets acquired, including direct transaction costs | \$ 113,838                   |                                      |

Current assets acquired in connection with the Netviewer Acquisition consisted primarily of cash and accounts receivable. Current liabilities acquired in the acquisition of Netviewer consisted primarily of deferred revenues, short-term payables, other accrued expenses and long-term liabilities consisted of long term debt which was paid in full subsequent to the acquisition date in the first quarter of 2011. Approximately \$108.6 million of goodwill related to the Netviewer Acquisition was assigned to our Online Services division and is not deductible for tax purposes. See Note 10 to our condensed consolidated financial statements for segment information. The amount of goodwill is comprised primarily of expected synergies from combining operations and other intangible assets that do not qualify for separate recognition.



**Table of Contents**

Identifiable intangible assets purchased in the Netviewer Acquisition, in thousands, and their weighted average lives are as follows:

|                               | Fair Value<br>(in thousands) | Weighted<br>Average<br>Life |
|-------------------------------|------------------------------|-----------------------------|
| Trade names                   | 541                          | 4.0 years                   |
| Customer relationships        | 25,019                       | 7.0 years                   |
| Core and product technologies | 3,246                        | 4.0 years                   |
| Total                         | \$ 28,806                    |                             |

We continue to evaluate certain tax assets and liabilities related to the Netviewer Acquisition. Additional information, which existed as of the acquisition date but was at that time unknown to us, may become known to us during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date. Changes to amounts recorded as assets or liabilities may result in a corresponding adjustment to goodwill.

*Other Acquisition*

During the first quarter of 2011, we acquired certain assets of a wholly-owned subsidiary of a privately-held company for a total cash consideration of approximately \$10.5 million. We accounted for this acquisition as a business combination in accordance with the authoritative guidance and it became part of our Enterprise division expanding our solutions portfolio for service providers and developing unique integrations with our cloud application delivery solutions. We recorded approximately \$5.9 million of goodwill, which is not deductible for tax purposes, and acquired \$4.7 million of identifiable intangible assets, of which \$3.0 million is related to product related intangible assets with a useful life of 5.0 years and \$1.7 million is related to other intangible assets with a weighted-average useful life of 7.3 years. In addition, we assumed liabilities of approximately \$0.1 million in conjunction with the acquisitions. We have included the effect of this transaction in our results of operations prospectively from the date of the acquisition, which effect was not material to our consolidated results.

*2010 Acquisitions*

On September 7, 2010, we acquired all of the issued and outstanding securities of VMLogix Inc., or VMLogix, a privately held corporation headquartered in Santa Clara, California. VMLogix is a provider of virtualization management software for private and public cloud computing systems. The total consideration for this transaction was approximately \$13.2 million, comprised of approximately \$10.4 million in cash and approximately \$2.8 million related to VMLogix liabilities settled in conjunction with the acquisition. The sources of funds for this transaction consisted of available cash. We recorded approximately \$7.7 million of goodwill, which is not deductible for tax purposes, and acquired \$10.6 million in assets including \$7.5 million of identifiable intangible assets, of which \$6.2 million is related to product related intangible assets with a useful life of 5.0 years and \$1.3 million is related to other intangible assets with a useful life of 4.0 years. We assumed liabilities of approximately \$5.1 million in conjunction with the acquisition. In addition, we also assumed stock options for which the vesting period reset fully upon the closing of the transaction. When these stock options vest, they will be exercisable for up to 47,784 shares of our common stock. We have included the effect of this transaction in our results of operations prospectively from the date of the acquisition, which effect was not material to our consolidated results.

During the first quarter of 2010, we acquired two privately-held companies for a total cash consideration of approximately \$9.2 million, net of cash acquired. We recorded approximately \$2.6 million of goodwill, which is not deductible for tax purposes, and acquired \$9.4 million in assets including \$7.1 million of identifiable intangible assets, of which \$6.2 million is related to product related intangible assets with a weighted-average useful life of 5.0 years and \$0.9 million is related to other intangible assets with a weighted-average useful life of 2.0 years. In addition, we assumed liabilities of approximately \$2.8 million in conjunction with the acquisitions. We have included the effects of these transactions in our results of operations prospectively from the respective dates of the acquisitions, which were not material to our consolidated results.

**Critical Accounting Policies and Estimates**

Our discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

disclosure of contingent liabilities. We base these estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances, and these estimates form the basis for our judgments concerning the carrying values of assets and liabilities that are not readily apparent from other sources. We periodically evaluate these estimates and judgments based on available information and experience. Actual results could differ from our estimates

---

## Table of Contents

under different assumptions and conditions. If actual results significantly differ from our estimates, our financial condition and results of operations could be materially impacted. For more information regarding our critical accounting policies and estimates please refer to

Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates contained in our Annual Report on Form 10-K for the year ended December 31, 2010, or the Annual Report, and Note 2 to our condensed consolidated financial statements. There have been no material changes to the critical accounting policies disclosed in the Annual Report except as described below.

### *Revenue Recognition*

We recognize revenue when it is earned and when all of the following criteria are met: persuasive evidence of the arrangement exists; delivery has occurred or the service has been provided and we have no remaining obligations; the fee is fixed or determinable; and collectability is probable. We define these four criteria as follows:

*Persuasive evidence of the arrangement exists.* We recognize revenue on packaged products and appliances upon shipment to distributors and resellers. For packaged product and appliance sales, it is our customary practice to require a purchase order from distributors and resellers who have previously negotiated a master packaged product distribution or resale agreement. For electronic and paper license arrangements, we typically require a purchase order from the distributor, reseller or end-user (depending on the arrangement) and an executed product license agreement from the end-user. For technical support, product training and consulting services, we require a purchase order and an executed agreement. For online services, we require the customer or the reseller to electronically accept the terms of an online services agreement or execute a contract.

*Delivery has occurred and we have no remaining obligations.* For product license and hardware appliance sales, our standard delivery method is free-on-board shipping point. Consequently, it considers delivery of packaged products and appliances to have occurred when the products are shipped pursuant to an agreement and purchase order. We consider delivery of licenses under electronic licensing agreements to have occurred when the related products are shipped and the end-user has been electronically provided the software activation keys that allow the end-user to take immediate possession of the product. For online services, delivery occurs upon providing the users with their login id and password. For product training and consulting services, we fulfill our obligation when the services are performed. For license updates, technical support and online services, we assume that our obligation is satisfied ratably over the respective terms of the agreements, which are typically 12 to 24 months.

*The fee is fixed or determinable.* In the normal course of business, we do not provide customers the right to a refund of any portion of their license fees or extended payment terms. The fees are considered fixed and determinable upon establishment of an arrangement that contains the final terms of the sale including description, quantity and price of each product or service purchased. For online services, the fee is considered fixed or determinable if it is not subject to refund or adjustment.

*Collectability is probable.* We determine collectability on a customer-by-customer basis and generally do not require collateral. We typically sell product licenses and license updates to distributors or resellers for whom there are histories of successful collection. New customers are typically subject to a credit review process that evaluates their financial position and ultimately their ability to pay. Customers are also subject to an ongoing credit review process. If we determine from the outset of an arrangement that collectability is not probable, revenue recognition is deferred until customer payment is received and the other parameters of revenue recognition described above have been achieved. Management's judgment is required in assessing the probability of collection, which is generally based on an evaluation of customer specific information, historical experience and economic market conditions.

The majority of our product license revenue consists of revenue from the sale of stand-alone software products. Stand-alone software sales generally include a perpetual license to our software and is subject to the industry specific software revenue recognition guidance. In accordance with this guidance we allocate revenue to license updates related to our stand-alone software and any other undelivered elements of the arrangement based on vendor specific objective evidence, or VSOE, of fair value of each element and such amounts are deferred until the applicable delivery criteria and other revenue recognition criteria described above have been met. The balance of the revenues, net of any discounts inherent in the arrangement, is recognized at the outset of the arrangement using the residual method as the product licenses are delivered. If management cannot objectively determine the fair value of each undelivered element based on VSOE of fair value, revenue recognition is deferred until all elements are delivered, all services have been performed, or until fair value can be objectively determined.

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Our hardware appliances contain software components that are essential to the overall functionality of the products. For hardware appliance transactions entered into prior to January 1, 2011, revenue for arrangements with multiple elements, such as sales of products that included services, was allocated to each element using the residual method based on the VSOE of the fair value of the undelivered items pursuant to authoritative guidance. Under the residual method, the amount of revenue allocated to delivered

**Table of Contents**

elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. If VSOE of one or more undelivered items does not exist, revenue from the entire arrangement is deferred and recognized at the earlier of: (i) delivery of those elements or (ii) when fair value can be established unless maintenance is the only undelivered element, in which case, the entire arrangement fee is recognized ratably over the contractual support period.

In October 2009, the Financial Accounting Standards Board, or the FASB, amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for multiple deliverable revenue arrangements to:

- (i) provide updated guidance on how the deliverables in a multiple deliverable arrangement should be separated, and how the consideration should be allocated;
- (ii) require an entity to allocate revenue in an arrangement using estimated selling prices, or ESP, of deliverables if a vendor does not have VSOE of selling price or third-party evidence of selling price, or TPE; and
- (iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

Effective January 1, 2011, we adopted these standards on a prospective basis for new and materially modified arrangements originating after December 31, 2010. The adoption of these standards did not have a material impact on our financial position and results of operations for the three months ended March 31, 2011. We do not expect the adoption of these standards to have a material impact on our financial position and results of operations in the future. However, we expect that this amended accounting guidance will facilitate our efforts to optimize our offerings due to better alignment between the economics of an arrangement and the accounting. This may lead us to engage in new go-to-market practices in the future. In particular, we expect that the amended accounting standards will enable us to better integrate products and services without VSOE into existing offerings and solutions. As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes in selling prices, including both VSOE and ESP.

For new and materially modified hardware appliance transactions subsequent to the adoption of the amended revenue recognition standards that are multiple-element arrangements, the arrangement consideration is allocated to stand-alone software deliverables as a group and the non-software deliverables based on the relative selling prices of using the selling price hierarchy in the amended revenue recognition guidance. The selling price hierarchy for a deliverable is based on its VSOE if available, third-party evidence if VSOE is not available, or estimated selling price if neither VSOE nor TPE is available. We then recognize revenue on each deliverable in accordance with our policies for product and service revenue recognition. VSOE of selling price is based on the price charged when the element is sold separately. In determining VSOE, we require that a substantial majority of the selling prices fall within a reasonable range based on historical discounting trends for specific products and services. TPE of selling price is established by evaluating competitor products or services in stand-alone sales to similarly situated customers. However, as our products contain a significant element of proprietary technology and our solutions offer substantially different features and functionality, the comparable pricing of products with similar functionality typically cannot be obtained. Additionally, as we are unable to reliably determine what competitors' products' selling prices are on a stand-alone basis, we are not typically able to determine TPE. The estimate of selling price is established considering multiple factors including, but not limited to pricing practices in different geographies and through different sales channels and competitor pricing strategies.

For our non-software deliverables we allocate the arrangement consideration based on the relative selling price of the deliverables. For our hardware appliances we use ESP as our selling price. For our support and services, we generally use VSOE as our selling price. When we are unable to establish selling price using VSOE for our support and services, we use ESP in our allocation of arrangement consideration.

Online services are sold separately. Our online services are purchased by large enterprises, small and medium-sized businesses, as well as individuals, and are centrally hosted within our datacenters. Our online services are considered service arrangements per the authoritative guidance, accordingly, fees related to online service agreements are recognized ratably over the contract term. In addition, Online Services revenues may also include set-up fees, which are recognized ratably over the contract term or the expected customer life, whichever is longer. Generally, our online services are sold separately and not bundled with the Enterprise division's products and services.





**Table of Contents****Results of Operations**

The following table sets forth our condensed consolidated statements of income data and presentation of that data as a percentage of change from period-to-period (in thousands).

|   | Three Months Ended<br>March 31, |                  | Three Months Ended<br>March 31, 2011<br>vs. March 31,<br>2010 |
|---|---------------------------------|------------------|---|
|   | 2011                            | 2010             |   |
| <b>Revenues:</b>  |                                 |                  |   |
| Product licenses  | \$ 150,260                      | \$ 122,706       | 22.5%   |
| License updates   | 177,876                         | 162,955          | 9.2   |
| Online services   | 99,772                          | 84,950           | 17.4  |
| Technical services                                      | 62,980                          | 43,661           | 44.2  |
| <b>Total net revenues</b>                               | <b>490,888</b>                  | <b>414,272</b>   | <b>18.5</b>   |
| <b>Cost of net revenues:</b>                            |                                 |                  |   |
| Cost of product license revenues                        | 14,041                          | 12,651           | 11.0  |
| Cost of services revenues                               | 30,666                          | 23,690           | 29.4  |
| Amortization of product related intangible assets       | 12,699                          | 12,358           | 2.8   |
| <b>Total cost of net revenues</b>                       | <b>57,406</b>                   | <b>48,699</b>    | <b>17.9</b>   |
| <b>Gross margin</b>                                     | <b>433,482</b>                  | <b>365,573</b>   | <b>18.6</b>   |
| <b>Operating expenses:</b>                              |                                 |                  |   |
| Research and development                                | 82,718                          | 77,702           | 6.5   |
| Sales, marketing and services                           | 194,243                         | 170,520          | 13.9  |
| General and administrative                              | 72,105                          | 60,619           | 18.9  |
| Amortization of other intangible assets                 | 3,509                           | 4,157            | (15.6)  |
| Restructuring   | 24                              | 500              | *   |
| <b>Total operating expenses</b>                         | <b>352,599</b>                  | <b>313,498</b>   | <b>12.5</b>   |
| <b>Income from operations</b>                           | <b>80,883</b>                   | <b>52,075</b>    | <b>55.3</b>   |
| Interest income   | 3,939                           | 3,556            | 10.8  |
| Other income, net                                       | 3,633                           | 377              | *   |
| <b>Income before income taxes</b>                       | <b>88,455</b>                   | <b>56,008</b>    | <b>57.9</b>   |
| Income taxes  | 15,108                          | 8,659            | 74.5  |
| <b>Consolidated net income</b>                          | <b>73,347</b>                   | <b>47,349</b>    | <b>54.9</b>   |
| Less: Net loss attributable to non-controlling interest | 156                             |                  | *   |
| <b>Net income attributable to Citrix Systems, Inc.</b>  | <b>\$ 73,503</b>                | <b>\$ 47,349</b> | <b>55.2</b>   |

\* not meaningful  
Revenues

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Net revenues of our Enterprise division include the following categories: Product Licenses, License Updates and Technical Services. Product Licenses primarily represent fees related to the licensing of the following major products:

Our Desktop Solutions, comprised primarily of our desktop virtualization product XenDesktop and our application virtualization product XenApp; and

Our Datacenter and Cloud Solutions, comprised primarily of our application networking products NetScaler, Access Gateway and Branch Repeater and our virtual infrastructure products, XenServer and Essentials for Hyper-V.  
In addition, we offer incentive programs to our VADs and VARs to stimulate demand for our products. Product license revenues associated with these programs are partially offset by these incentives to our VADs and VARs.

**Table of Contents**

License Updates consist of fees related to our Subscription Advantage program that are recognized ratably over the term of the contract, which is typically 12 to 24 months. Subscription Advantage is an annual renewable program that provides subscribers with automatic delivery of unspecified software upgrades, enhancements and maintenance releases when and if they become available during the term of the subscription. Technical Services revenues are comprised of fees from technical support services which are recognized ratably over the contract term, as well as revenues from product training and certification, and consulting services revenue related to implementation of our products, which is recognized as the services are provided.

Our Online Services division's revenues consist of fees related to online service agreements from our web collaboration products which primarily include our GoToMeeting, GoToWebinar, Hi-Def Audio, and GoToTraining services, our remote access, GoToMyPC, and our remote IT support which primarily include GoToAssist and GoToManage. Our Online Services revenue is recognized ratably over the contract term.

|                           | Three Months Ended<br>March 31, |                        | Three Months Ended<br>March 31, 2011<br>vs. March 31, 2010 |
|---------------------------|---------------------------------|------------------------|--|
|                           | 2011                            | 2010<br>(In thousands) |  |
| Product licenses          | \$ 150,260                      | \$ 122,706             | \$ 27,554  |
| License updates           | 177,876                         | 162,955                | 14,921   |
| Online services           | 99,772                          | 84,950                 | 14,822   |
| Technical services        | 62,980                          | 43,661                 | 19,319   |
| <b>Total net revenues</b> | <b>\$ 490,888</b>               | <b>\$ 414,272</b>      | <b>\$ 76,616</b>   |

*Product Licenses*

Product licenses revenue increased for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 primarily due to increased sales of our Desktop Solutions, led by XenDesktop of \$17.1 million and due to increased sales of our Datacenter and Cloud Solutions, led by NetScaler of \$10.1 million. The increase in Product license revenue was primarily due to the factors discussed in the Executive Summary above. We currently expect Product license sales to increase when comparing the second quarter of 2011 to the second quarter of 2010 due to the increased interest we are seeing in our Desktop Solutions products as well as the other factors discussed in the Executive Summary above.

*License Updates*

License updates revenue increased for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 primarily due to an increase in new Subscription Advantage sales, resulting from increased XenDesktop product sales. We currently anticipate that License updates revenue will increase when comparing the second quarter of 2011 to the second quarter of 2010.

*Online Services*

Online services revenue increased for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 primarily due to increased sales of our web collaboration products. We currently expect our Online services revenue to increase when comparing the second quarter of 2011 to the second quarter of 2010.

*Technical Services*

Technical services revenue increased for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 primarily due to increases in support revenues of \$10.4 million driven by increased sales of our Datacenter and Cloud Solutions, primarily NetScaler, and an increase in consulting revenues of \$6.2 million related to increased implementation sales of our Enterprise division's products. We currently expect Technical services revenues to increase when comparing the second quarter of 2011 to the second quarter of 2010 consistent with the expected increase in Product license revenue described above.

*Deferred Revenues*

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Deferred revenues are primarily comprised of License updates revenue from Subscription Advantage, Technical services revenues related to our support services and consulting contracts and Online services revenues from annual service agreements for our Online Services. Deferred revenues increased approximately \$9.8 million as of March 31, 2011 compared to December 31, 2010 primarily due to our acquisition of Netviewer. We currently expect deferred revenues to continue to increase for the remainder of 2011.

**Table of Contents***International Net Revenues*

International net revenues (sales outside the United States) accounted for approximately 42.4% of our net revenues for the three months ended March 31, 2011 and 42.9% of our net revenues for the three months ended March 31, 2010. See Note 10 to our condensed consolidated financial statements for detailed information on net revenues by geography.

*Segment Revenues*

Our revenues are derived from sales of Enterprise division products which include our Desktop Solutions, Datacenter and Cloud Solutions products and related technical services and from our Online Services division's web collaboration, connectivity and remote support services. The Enterprise division and the Online Services division constitute our two reportable segments.

An analysis of our reportable segment net revenue is presented below (in thousands):

|                          | Three Months Ended<br>March 31, |                        | Increase<br>for the Three<br>Months Ended<br>March 31, 2011<br>vs. March 31, 2010 |
|--------------------------|---------------------------------|------------------------|---|
|                          | 2011                            | 2010<br>(In thousands) |   |
| Enterprise division      | \$ 391,116                      | \$ 329,322             | 18.8%   |
| Online Services division | 99,772                          | 84,950                 | 17.4  |
| Net revenues             | \$ 490,888                      | \$ 414,272             | 18.5  |

With respect to our segment revenues, the increase in net revenues for the comparative periods presented was due primarily to the factors previously discussed above. See Note 10 of our condensed consolidated financial statements for additional information on our segment revenues.

*Cost of Net Revenues*

|   | Three Months Ended<br>March 31, |                        | Three Months Ended<br>March 31, 2011<br>vs. March 31,<br>2010 |
|---|---------------------------------|------------------------|---|
|   | 2011                            | 2010<br>(In thousands) |   |
| Cost of product license revenues                  | \$ 14,041                       | \$ 12,651              | \$ 1,390  |
| Cost of services revenues                         | 30,666                          | 23,690                 | 6,976   |
| Amortization of product related intangible assets | 12,699                          | 12,358                 | 341   |
| Total cost of net revenues                        | \$ 57,406                       | \$ 48,699              | \$ 8,707  |

Cost of product license revenues consists primarily of hardware, product media and duplication, manuals, packaging materials, shipping expense and royalties. Cost of services revenue consists primarily of compensation and other personnel-related costs of providing technical support and consulting, as well as the costs related to providing our online services. Also included in cost of net revenues is amortization of product related intangible assets.

Cost of product license revenues increased for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 primarily due to increased revenue of our Datacenter and Cloud products, many of which contain hardware components that have a higher cost than our other software products. We currently anticipate cost of product license revenues will increase when comparing the second quarter of 2011 to the second quarter of 2010 consistent with the anticipated increase in Product License sales.

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Cost of services revenues increased \$4.1 million for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 consistent with the increase in revenue of technical services related to our Enterprise products and increased \$2.8 million primarily due to an increase in sales of our web collaboration products as described above. We currently anticipate cost of services revenues will increase when comparing the second quarter of 2011 to the second quarter of 2010 consistent with the expected increase in Online services and Technical services revenues as discussed above.

### *Gross Margin*

Gross margin as a percent of revenue was 88.3% for the three months ended March 31, 2011 and 88.2% for the three months ended March 31, 2010.

**Table of Contents***Operating Expenses**Foreign Currency Impact on Operating Expenses*

A substantial majority of our overseas operating expenses and capital purchasing activities are transacted in local currencies and are therefore subject to fluctuations in foreign currency exchange rates. In order to minimize the impact on our operating results, we generally initiate our hedging of currency exchange risks up to 15 months in advance of anticipated foreign currency expenses. When the dollar is weak, the resulting increase to foreign currency denominated expenses will be partially offset by the gain in our hedging contracts. When the dollar is strong, the resulting decrease to foreign currency denominated expenses will be partially offset by the loss in our hedging contracts. There is a risk that there will be fluctuations in foreign currency exchange rates beyond the one-year timeframe for which we hedge our risk.

*Research and Development Expenses*

|                          | <b>Three Months Ended<br/>March 31,</b> |             | <b>Three Months Ended<br/>March 31, 2011</b> |
|--------------------------|---|-------------|--|
|                          | <b>2011</b>                             | <b>2010</b> | <b>vs. March 31, 2010</b>                    |
|                          | <b>(In thousands)</b>                   |             |  |
| Research and development | <b>\$ 82,718</b>                        | \$ 77,702   | \$ 5,016                                     |

Research and development expenses consisted primarily of personnel related costs and facility and equipment costs directly related to our research and development activities. We expensed substantially all development costs included in the research and development of our products.

Research and development expenses increased during the three months ended March 31, 2011 compared to the three months ended March 31, 2010 primarily due to a \$10.1 million increase in compensation and other employee related costs. Also contributing to the increase in research and development expenses was a \$3.5 million increase in facilities and related depreciation. These increases primarily relate to the strategic hiring of headcount in research and development as discussed above in our Executive Summary. Partially offsetting the increases in research and development costs when comparing the three months ended March 31, 2011 to the three months ended March 31, 2010 is an \$8.2 million decrease in stock-based compensation expense due to stock-based awards related to certain acquisitions becoming fully vested. We expect research and development expense to increase when comparing the second quarter of 2011 to the first quarter of 2011 due to our acquisition of Netviewer and as we continue to develop existing and new products as well as invest in research and development of advanced technologies for future application.

*Sales, Marketing and Services Expenses*

|                               | <b>Three Months Ended<br/>March 31,</b> |             | <b>Three Months Ended<br/>March 31, 2011</b> |
|-------------------------------|---|-------------|--|
|                               | <b>2011</b>                             | <b>2010</b> | <b>vs. March 31, 2010</b>                    |
|                               | <b>(In thousands)</b>                   |             |  |
| Sales, marketing and services | <b>\$ 194,243</b>                       | \$ 170,520  | \$ 23,723                                    |

Sales, marketing and services expenses consisted primarily of personnel-related costs, including sales commissions, the costs of marketing programs aimed at increasing revenue, such as brand development, advertising, trade shows, public relations and other market development programs and costs related to our facilities, equipment and information systems that are directly related to our sales, marketing and services activities.

Sales, marketing and services expenses increased during the three months ended March 31, 2011 compared to the three months ended March 31, 2010 primarily due to a \$17.4 million increase in compensation including variable compensation and employee related costs due to additional headcount in our sales force and technical services group, as well as from our acquisition of Netviewer. Also contributing to the increase in sales, marketing and services expense was a \$4.5 million increase in marketing program costs related to various marketing campaigns and events. We expect sales, marketing and services expenses to increase when comparing the second quarter of 2011 to the first quarter of 2011 due to our acquisition of Netviewer and as we continue to promote brand awareness and other marketing initiatives as well as increase our sales and technical services capacity.





**Table of Contents***General and Administrative Expenses*

|                            | <b>Three Months Ended<br/>March 31,<br/>2011</b> | <b>2010</b> | <b>Three Months Ended<br/>March 31, 2011<br/>vs. March 31, 2010</b> |
|----------------------------|--|-------------|---|
|                            | <b>(In thousands)</b>                            |             |   |
| General and administrative | <b>\$ 72,105</b>                                 | \$ 60,619   | \$ 11,486   |

General and administrative expenses consisted primarily of personnel related costs and expenses related to outside consultants assisting with information systems, as well as accounting and legal fees.

General and administrative expenses increased during the three months ended March 31, 2011 compared to the three months ended March 31, 2010 primarily due to an increase in compensation and employee related costs due to additional headcount, primarily in IT as well as from our acquisition of Netviewer. We currently anticipate that general and administrative expenses will increase when comparing the second quarter of 2011 to the first quarter of 2011 due primarily to the acquisition of Netviewer and costs to support the growth in the business.

*Other Income, Net*

|                   | <b>Three Months Ended<br/>March 31,<br/>2011</b> | <b>2010</b> | <b>Three Months Ended<br/>March 31, 2011<br/>vs. March 31, 2010</b> |
|-------------------|--|-------------|---|
|                   | <b>(In thousands)</b>                            |             |   |
| Other income, net | <b>\$ 3,633</b>                                  | \$ 377      | \$ 3,256  |

Other income, net is primarily comprised of remeasurement of foreign currency transaction gains (losses) and realized gains (losses) related to changes in the fair value of our investments that have a decline in fair value that is considered other-than-temporary, if any, recognized gains (losses) related to available-for-sale investments and interest expense which was not material for all periods presented. The increase in other income during the three months ended March 31, 2011 compared to the three months ended March 31, 2010 is primarily due to an increase in gains related to remeasurement of our foreign currency transactions. For more information on our investments, see Liquidity and Capital Resources.

*Income Taxes*

As of March 31, 2011, our net unrecognized tax benefits totaled approximately \$65.1 million. There was \$1.3 million included in the balance at March 31, 2011 for tax positions which would affect the annual effective tax rate. During the quarter ended March 31, 2011, we recognized \$0.1 million of expense related to interest, which is included in income tax expense. We have approximately \$1.4 million for the payment of interest and penalties accrued at March 31, 2011.

We and certain of our subsidiaries are subject to United States, or U.S. federal income taxes in the U.S., as well as income taxes of multiple state and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2004.

In the ordinary course of global business, there are transactions for which the ultimate tax outcome is uncertain and judgment is required in determining the worldwide provision for income taxes. We provide for income taxes on transactions based on our estimate of the probable liability. We adjust our provision as appropriate for changes that impact our underlying judgments. Changes that impact provision estimates include such items as jurisdictional interpretations on tax filing positions based on the results of tax audits and general tax authority rulings. Due to the evolving nature of tax rules combined with the large number of jurisdictions in which we operate, it is possible that our estimates of our tax liability and the realizability of our deferred tax assets could change in the future, which may result in additional tax liabilities and adversely affect our results of operations, financial condition and cash flows.

In June 2010, we reached a settlement in principle with the IRS regarding certain previously disclosed income tax deficiencies asserted in a Revenue Agent's Report, or RAR. Under the terms of the settlement in principle, we would agree to an assessment of income tax deficiencies in full settlement of all open claims under the RAR and would resolve with finality for future years all of the transfer pricing issues raised in the RAR. Based on this, we incurred a charge of \$13.1 million in 2010 in accordance with the authoritative guidance. Among other things, the

## Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

authoritative guidance requires application of a more likely than not threshold to the recognition and non-recognition of tax positions. It further requires that a change in management judgment related to prior years tax positions be recognized in the quarter of such change.

The final settlement requires the finalization of tax deficiency calculations with the IRS and a written agreement signed by the IRS. It is uncertain how long it will take to reach a final settlement with the IRS. There can be no assurances that a final written agreement will be obtained or that this matter will otherwise be resolved in our favor. An adverse outcome of this matter could have a material adverse effect on our results of operations and financial condition.

**Table of Contents**

We are required to estimate our income taxes in each of the jurisdictions in which we operate as part of the process of preparing our condensed consolidated financial statements. At March 31, 2011, we had approximately \$120.7 million in deferred tax assets. The authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We review deferred tax assets periodically for recoverability and make estimates and judgments regarding the expected geographic sources of taxable income and gains from investments, as well as tax planning strategies in assessing the need for a valuation allowance.

We maintain certain operational and administrative processes in overseas subsidiaries and our foreign earnings are taxed at lower foreign tax rates. We do not expect to remit earnings from our foreign subsidiaries. The increase in the effective tax rate when comparing the three months ended March 31, 2011 to the three months ended March 31, 2010 was primarily due to a reduction in tax benefits from disqualifying dispositions of incentive stock options. Our effective tax rate was approximately 17.1% for the three months ended March 31, 2011 and 15.5% for the three months ended March 31, 2010.

**Liquidity and Capital Resources**

During the three months ended March 31, 2011, we generated operating cash flows of \$159.2 million. These cash flows related primarily to net income of \$73.3 million, adjusted for, among other things, non-cash charges, including depreciation and amortization expenses of \$35.8 million, stock-based compensation expense of \$17.9 million and the tax effect of stock-based compensation of \$15.5 million. Also contributing to these cash inflows was an aggregate increase in operating assets and liabilities of \$32.9 million, net of effects of our acquisitions. These cash inflows are partially offset by operating outflows related to the excess benefit from the exercise of stock options of \$15.5 million. Our investing activities provided \$17.9 million of cash consisting primarily of cash received for net proceeds of investments of \$166.5 million. This cash inflow is partially offset by cash outflows related to cash paid for acquisitions of \$118.4 million and the purchase of property and equipment of \$26.8 million. Our financing activities used \$61.8 million of cash primarily from expenditures on our stock repurchase program of \$100.0 million partially offset by proceeds received from the issuance of common stock under our employee stock-based compensation plans of \$42.3 million.

During the three months ended March 31, 2010, we generated operating cash flows of \$143.6 million. These cash flows related primarily to net income of \$47.3 million, adjusted for, among other things, non-cash charges, including depreciation and amortization expenses of \$34.0 million, stock-based compensation expense of \$24.9 million and the tax effect of stock-based compensation of \$9.4 million. Also contributing to these cash inflows was an aggregate increase in operating assets and liabilities of \$37.7 million, net of effects of our acquisitions. These cash inflows are partially offset by operating outflows related to the excess benefit from the exercise of stock options of \$13.6 million. Our investing activities used \$188.6 million of cash consisting primarily of cash paid for net purchases of investments of \$160.5 million. Also contributing to these cash outflows is the purchase of property and equipment of \$11.3 million, cash paid for acquisitions of \$9.5 million and cash paid for licensing agreements and product related intangible assets of \$7.3 million. Our financing activities provided \$65.8 million of cash primarily from proceeds received from the issuance of common stock under our employee stock-based compensation plans of \$154.9 million partially offset by expenditures on our stock repurchase program of \$100.0 million.

Historically, significant portions of our cash inflows were generated by our operations. We currently expect this trend to continue throughout 2011. We believe that our existing cash and investments together with cash flows expected from operations will be sufficient to meet expected operating and capital expenditure requirements for the next 12 months.

*Cash, Cash Equivalents and Investments*

|  | March 31, 2011 | December 31, 2010 | 2011<br>Compared to<br>2010 |
|--|----------------|-------------------|-----------------------------|
|  | (In thousands) |                   |                             |
| Cash, cash equivalents and investments | \$ 1,638,825   | \$1,685,659       | \$ (46,834)                 |

The decrease in cash, cash equivalents and investments when comparing March 31, 2011 to December 31, 2010, is primarily due to cash paid for acquisitions of \$118.4 million, expenditures made on our stock repurchases of \$100.0 million and purchases of property and equipment of \$26.8 million partially offset by cash provided by our operating activities of \$159.2 million and cash received from the issuance of common stock under our employee stock-based compensation plans of \$42.3 million. See Liquidity and Capital Resources. We generally invest our cash and cash equivalents in investment grade, highly liquid securities to allow for flexibility in the event of immediate cash needs. Our short-term and long-term investments primarily consist of interest-bearing securities.



---

## **Table of Contents**

### *Fair Value Measurements*

The authoritative guidance defines fair value as an exit price, representing the amount that would either be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

*Level 1.* Observable inputs such as quoted prices in active markets for identical assets or liabilities;

*Level 2.* Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

*Level 3.* Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Available-for-sale securities included in Level 1 are valued using closing prices for identical instruments that are traded on active exchanges. Available-for-sale securities included in Level 2 are valued utilizing inputs obtained from an independent pricing service, or the Service, which uses quoted market prices for identical or comparable instruments rather than direct observations of quoted prices in active markets. The Service gathers observable inputs for all of our fixed income securities from a variety of industry data providers, for example, large custodial institutions and other third-party sources. Once the observable inputs are gathered by the Service, all data points are considered and an average price is determined. The Service's providers utilize a variety of inputs to determine their quoted prices. These inputs may include interest rates, known historical trades, yield curve information, benchmark data, prepayment speeds, credit quality and broker/dealer quotes. Substantially all of our available-for-sale investments are valued utilizing inputs obtained from the Service and accordingly are categorized as Level 2. We do not adjust the prices obtained from the Service. Available-for-sale securities are included in Level 3 when relevant observable inputs for a security are not available.

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the classification of assets and liabilities within the fair value hierarchy. In certain instances, the inputs used to measure fair value may meet the definition of more than one level of the fair value hierarchy. The input with the lowest level priority is used to determine the applicable level in the fair value hierarchy.

### *Assets and Liabilities Measured at Fair Value on a Recurring Basis*

Our fixed income available-for-sale securities consist of high quality, investment grade securities from diverse issuers with a minimum credit rating of A- and a weighted average credit rating of AA. We previously classified these investments as Level 1 because we did not make adjustments to the prices obtained from the Service. However, as we value these securities based on pricing from the Service, who may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value; we began classifying all of our fixed income available-for-sale securities as Level 2 in the first quarter of 2011.

We measure our cash flow hedges at fair value based on indicative prices in active markets (Level 2 inputs).

We currently hold one available-for-sale investment for which quoted prices are not readily available, our \$50.0 million face value investment issued by AIG Matched Funding Corporation, or the AIG Capped Floater. In order to measure the AIG Capped Floater at fair value we used a discounted cash flow model. We then discounted those cash flows at a rate reflecting the market risk inherent in holding an AIG security with a similar maturity as evidenced by pricing in the markets. Since utilizing a discounted cash flow model required us to make assumptions that were not directly or indirectly observable regarding the AIG Capped Floater's fair value. Accordingly, it is a Level 3 valuation and is included in the table below.

### *Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)*

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

|  | <b>Long-term<br/>Investments<br/>(in thousands)</b> |
|--|---|
| Balance at December 31, 2010   | \$ 49,340   |
| Decrease in previously recognized unrealized losses included in accumulated other comprehensive income | 448   |
| Balance at March 31, 2011  | \$ 49,788   |

**Table of Contents**

Realized (losses) gains included in earnings for the period are reported in other income, net.

*Accounts Receivable, Net*

|                                 | March 31, 2011 | December 31, 2010 | 2011<br>Compared to<br>2010 |
|---------------------------------|----------------|-------------------|-----------------------------|
|                                 | (In thousands) |                   |                             |
| Accounts receivable             | \$ 301,159     | \$ 382,654        | \$ (81,495)                 |
| Allowance for returns           | (1,256)        | (850)             | (406)                       |
| Allowance for doubtful accounts | (2,713)        | (3,409)           | 696                         |
| Accounts receivable, net        | \$ 297,190     | \$ 378,395        | \$ (81,205)                 |

The decrease in accounts receivable when comparing March 31, 2011 to December 31, 2010 was primarily due to increased collections in the first quarter of 2011 on higher sales in the fourth quarter of 2010. The activity in our allowance for returns was comprised of \$1.5 million of provisions for returns recorded in the first quarter of 2011 partially offset by \$1.1 million in credits issued for returns during the first quarter of 2011. The activity in our allowance for doubtful accounts was comprised primarily of \$0.9 million of uncollectible accounts written off, net of recoveries partially offset by \$0.2 million in additional provisions for doubtful accounts recorded during the first quarter of 2011. From time to time, we could maintain individually significant accounts receivable balances from our distributors or customers, which are comprised of large business enterprises, governments and small and medium-sized businesses. If the financial condition of our distributors or customers deteriorates, our operating results could be adversely affected.

*Credit Facility*

Effective on August 9, 2005, we entered into a revolving credit facility, or the Credit Facility, with a group of financial institutions, or the Lenders. Effective September 27, 2006, we entered into an amendment and restatement of the Credit Facility, or the Amendment. The Amendment decreased the overall range of interest we will pay on amounts outstanding on the Credit Facility and lowered the facility fee. In addition, the Amendment extended the term of the Credit Facility. The Credit Facility, as amended, allows us to increase the revolving credit commitment up to a maximum aggregate revolving credit commitment of \$175.0 million. The Credit Facility, as amended, will expire on September 27, 2011 and it currently provides for a revolving line of credit in the aggregate amount of \$100.0 million, subject to continued covenant compliance. A portion of the revolving line of credit (1) in the aggregate amount of \$25.0 million may be available for issuances of letters of credit and (2) in the aggregate amount of \$15.0 million may be available for swing line loans. The Credit Facility, as amended, currently bears interest at the London Interbank Offered Rate, or LIBOR, plus 0.32% and adjusts in the future in the range of 0.32% to 0.80% above LIBOR based on the level of our total debt and our adjusted earnings before interest, taxes, depreciation and amortization, or EBITDA. In addition, we are required to pay an annual facility fee ranging from 0.08% to 0.20% based on the aggregate amount available under the Credit Facility, as amended, and the level of our total debt and adjusted EBITDA. During the three months ended March 31, 2011, no borrowings were made under the Credit Facility, as amended, and as of March 31, 2011 there were no amounts outstanding under the Credit Facility, as amended.