CITRIX SYSTEMS INC
Form 10-Q
August 08, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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)

Delaware	**75-2275152**
(State or other jurisdiction of	*(IRS Employer*
incorporation or organization)	*Identification No.)*
851 West Cypress Creek Road	
Fort Lauderdale, Florida	**33309**
(Address of principal executive offices)	*(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 x 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). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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.

x 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 x

As of August 1, 2011 there were 188,286,857 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 June 30, 2011

CONTENTS

		Page Number
PART I:	FINANCIAL INFORMATION	
Item 1.	Condensed Consolidated Financial Statements	
	Condensed Consolidated Balance Sheets: June 30, 2011 and December 31, 2010 (Unaudited)	3
	Condensed Consolidated Statements of Income: Three and Six Months ended June 30, 2011 and 2010 (Unaudited)	4
	Condensed Consolidated Statements of Cash Flows: Six Months ended June 30, 2011 and 2010 (Unaudited)	5
	Notes to Condensed Consolidated Financial Statements (Unaudited)	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	40
Item 4.	Controls and Procedures	40
PART II:	OTHER INFORMATION	
Item 1.	Legal Proceedings	41
Item 1A.	Risk Factors	41
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	41
Item 5.	Other Information	42
Item 6.	Exhibits	42
Signature		43

Table of Contents

PART I: FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CITRIX SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2011	December 31, 2010
	(In thousands, except par value)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 430,816**	$ 396,162
Short-term investments available-for-sale	**467,605**	497,643
Accounts receivable, net of allowances of $4,835 and $4,259 at June 30, 2011 and December 31, 2010, respectively	**338,734**	378,395
Inventories, net	**7,332**	6,980
Prepaid expenses and other current assets	**122,973**	105,073
Current portion of deferred tax assets, net	**85,096**	86,226
Total current assets	**1,452,556**	1,470,479
Long-term investments available-for-sale	**800,649**	791,854
Property and equipment, net	**272,685**	250,482
Goodwill	**1,043,014**	921,100
Other intangible assets, net	**188,348**	178,144
Long-term portion of deferred tax assets, net	**56,805**	43,815
Other assets	**55,632**	47,726
	$ 3,869,689	$ 3,703,600
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	**$ 61,056**	$ 65,842
Accrued expenses and other current liabilities	**265,622**	289,838
Current portion of deferred revenues	**711,627**	664,332
Total current liabilities	**1,038,305**	1,020,012
Long-term portion of deferred revenues	**118,178**	114,638
Other liabilities	**49,717**	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; 281,348 and 277,992 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	**281**	278
Additional paid-in capital	**3,268,305**	3,112,186
Retained earnings	**2,010,596**	1,855,149
Accumulated other comprehensive income	**12,919**	2,023
	5,292,101	4,969,636

Less common stock in treasury, at cost (93,327 and 90,502 shares at June 30, 2011 and December 31, 2010, respectively)	**(2,628,612)**	(2,416,645)
Total Citrix Systems, Inc. stockholders equity	**2,663,489**	2,552,991
Non-controlling interest		7,597
Total equity	**2,663,489**	2,560,588
	$ 3,869,689	$ 3,703,600

See accompanying notes.

3

Table of Contents

CITRIX SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	(In thousands, except per share information)			
Revenues:				
Product licenses	**$ 171,326**	$ 148,733	**$ 321,586**	$ 271,439
License updates	**183,875**	168,601	**361,751**	331,556
Online services	**106,479**	89,211	**206,251**	174,161
Technical services	**69,110**	51,888	**132,090**	95,549
Total net revenues	**530,790**	458,433	**1,021,678**	872,705
Cost of net revenues:				
Cost of product license revenues	**18,448**	15,149	**32,489**	27,800
Cost of services revenues	**37,906**	25,989	**68,572**	49,679
Amortization of product related intangible assets	**12,542**	12,417	**25,241**	24,775
Total cost of net revenues	**68,896**	53,555	**126,302**	102,254
Gross margin	**461,894**	404,878	**895,376**	770,451
Operating expenses:				
Research and development	**83,312**	79,543	**166,030**	157,245
Sales, marketing and services	**199,359**	186,601	**393,602**	357,121
General and administrative	**79,696**	60,805	**151,801**	121,424
Amortization of other intangibles	**3,937**	3,776	**7,446**	7,933
Restructuring		335	**24**	835
Total operating expenses	**366,304**	331,060	**718,903**	644,558
Income from operations	**95,590**	73,818	**176,473**	125,893
Interest income	**3,727**	3,837	**7,666**	7,393
Other income (expense), net	**1,361**	(2,962)	**4,994**	(2,585)
Income before income taxes	**100,678**	74,693	**189,133**	130,701
Income taxes	**19,270**	27,136	**34,378**	35,795
Consolidated net income	**81,408**	47,557	**154,755**	94,906
Less: Net loss attributable to non-controlling interest	**536**		**692**	
Net income attributable to Citrix Systems, Inc.	**$ 81,944**	$ 47,557	**$ 155,447**	$ 94,906
Net income per share attributable to Citrix Systems, Inc. stockholders:				
Net income per share attributable to Citrix Systems, Inc. stockholders basic	**$ 0.44**	$ 0.26	**$ 0.83**	$ 0.51
Net income per share attributable to Citrix Systems, Inc. stockholders diluted	**$ 0.43**	$ 0.25	**$ 0.81**	$ 0.50
Weighted average shares outstanding:				

Basic	**187,691**	185,256	**187,810**	184,703
Diluted	**191,412**	189,278	**191,636**	189,126

See accompanying notes.

Table of Contents

CITRIX SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In thousands)	
Operating Activities		
Net income	**$ 154,755**	$ 94,906
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	**32,687**	32,708
Depreciation and amortization of property and equipment	**40,018**	35,447
Stock-based compensation expense	**38,637**	53,073
Loss on investments	**655**	1,070
Provision for doubtful accounts	**(669)**	1,575
Provision for product returns	**2,222**	959
Provision for inventory reserves	**1,171**	1,553
Tax effect of stock-based compensation	**37,247**	12,814
Excess tax benefit from exercise of stock options	**(37,269)**	(18,114)
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	**(2,347)**	2,325
Other non-cash items	**1,193**	706
Total adjustments to reconcile net income to net cash provided by operating activities	**113,545**	124,116
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	**44,405**	(20,307)
Inventories	**(1,522)**	(262)
Prepaid expenses and other current assets	**(18,469)**	(42,783)
Other assets	**497**	3,668
Deferred tax assets, net	**(13,036)**	7,918
Accounts payable	**(8,938)**	(3,112)
Accrued expenses and other current liabilities	**(25,111)**	14,247
Deferred revenues	**43,288**	67,514
Other liabilities	**32,111**	879
Total changes in operating assets and liabilities, net of the effects of acquisitions	**53,225**	27,762
Net cash provided by operating activities	**321,525**	246,784
Investing Activities		
Purchases of available-for-sale investments	**(684,332)**	(636,758)
Proceeds from sales of available-for-sale investments	**395,709**	243,877
Proceeds from maturities of available-for-sale investments	**312,007**	238,342
Proceeds from repayments of trading securities		44,560
Purchases of property and equipment	**(59,456)**	(30,072)
Purchases of cost method investments	**(8,222)**	(1,000)
Cash paid for acquisitions, net of cash acquired	**(118,440)**	(10,227)
Cash paid for licensing agreements and product related intangible assets	**(7,487)**	(10,235)
Net cash used in investing activities	**(170,221)**	(161,513)
Financing Activities		
Proceeds from issuance of common stock under stock-based compensation plans	**85,126**	184,192
Repayment of acquired debt	**(10,926)**	
Excess tax benefit from exercise of stock options	**37,269**	18,114
Purchase of non-controlling interest	**(17,207)**	

Stock repurchases, net	**(199,915)**	(199,944)
Cash paid for tax withholding on vested stock awards	**(12,052)**	(4,138)
Other	**(3,000)**	
Net cash used in financing activities	**(120,705)**	(1,776)
Effect of exchange rate changes on cash and cash equivalents	**4,055**	(234)
Change in cash and cash equivalents	**34,654**	83,261
Cash and cash equivalents at beginning of period	**396,162**	261,443
Cash and cash equivalents at end of period	**$ 430,816**	$ 344,704

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 of less-than-wholly-owned subsidiaries within the equity section of its condensed consolidated financial statements in accordance with the authoritative guidance for the presentation and disclosure of non-controlling interests of a consolidated subsidiary. See Note 4 for more information regarding the Company s non-controlling interests.

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 June 30, 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. 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 June 30, 2011 and December 31, 2010.

6

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 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, which is typically 12 months. 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 and technical support, the Company assumes that its obligation is satisfied ratably over the respective terms of the agreements, which are typically 12 to 24 months. For online services, the Company assumes that its obligation is satisfied ratably over the respective terms of the agreements, which are typically 12 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 or 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

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.

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 and six months ended June 30, 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 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 third-party 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 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 $1.4 million and $0.9 million at June 30, 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.

Table of Contents

Foreign Currency

The functional currency for all of the Company s wholly-owned foreign subsidiaries in its Enterprise division 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. The functional currency of the Company s wholly-owned foreign subsidiaries of its Online Services division is the currency of the country in which they are located. The Company translates assets and liabilities of these 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. Foreign currency transaction gains and losses are the result of exchange rate changes on transactions denominated in currencies other than the functional currency, including U.S. dollars. The remeasurement of those foreign currency transactions is included in determining net income or loss for the period of exchange.

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 or settlement 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):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2011	**2010**	**2011**	**2010**
Numerator:				
Net income attributable to Citrix Systems, Inc. stockholders	**$ 81,944**	$ 47,557	**$ 155,447**	$ 94,906
Denominator:				
Denominator for basic earnings per share weighted-average shares outstanding	**187,691**	185,256	**187,810**	184,703
Effect of dilutive employee stock awards	**3,721**	4,022	**3,826**	4,423
Denominator for diluted earnings per share weighted-average shares outstanding	**191,412**	189,278	**191,636**	189,126
Net income per share attributable to Citrix Systems, Inc. stockholders basic	**$ 0.44**	$ 0.26	**$ 0.83**	$ 0.51
Net income per share attributable to Citrix Systems, Inc. stockholders diluted	**$ 0.43**	$ 0.25	**$ 0.81**	$ 0.50
Anti-dilutive weighted-average shares	**1,706**	1,965	**1,290**	1,926

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 enables the extension of its Online Services business in Europe. The total 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 $2.8 million, of which the Company expensed $0.4 million and $0.8 million during the three and six months ended June 30, 2011, respectively, and are 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.

Table of Contents

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.

	Fair Value (in thousands)	Weighted-Average Asset Life
Current assets	$ 11,683	
Other assets	330	
Property and equipment	2,350	Various
Intangible assets	28,806	4-7 years
Goodwill	109,368	Indefinite
Assets acquired	152,537	
Current liabilities assumed	(18,144)	
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, and 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 $109.4 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. The Company continues to evaluate certain tax assets and liabilities related to the Netviewer Acquisition.

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

	Fair Value (in thousands)	Weighted-Average 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	

Kaviza Inc.

The Company presents non-controlling interests of less-than-wholly-owned subsidiaries within the equity section of its condensed consolidated financial statements in accordance with the authoritative guidance for the presentation and disclosure of non-controlling interests of consolidated subsidiaries. In May 2011, the Company acquired all of the non-controlling interest of Kaviza Inc. (Kaviza), a provider of virtual desktop infrastructure solutions, for $17.2 million. In addition, the Company also deposited an additional $3.0 million to be held in escrow. As a result of this transaction, the Company has obtained a 100% interest in this subsidiary. In accordance with the authoritative guidance, the excess of the proceeds paid over the carrying amount of the non-controlling interest of Kaviza has been reflected as a reduction of paid in capital. In addition, in connection with the purchase of the non-controlling interest of Kaviza, the Company converted and assumed 88,687 non-vested stock units and 33,301 stock options with existing vesting schedules.

Table of Contents

Cloud.com

In July 2011, the Company acquired all of the issued and outstanding securities of Cloud.com, Inc. (Cloud.com), a privately held provider of software infrastructure platforms for cloud providers. Cloud.com will become part of the Company s Enterprise division and the acquisition further establishes the Company as a leader in infrastructure for the growing cloud provider market. The total preliminary consideration for this transaction was approximately $158.9 million, net of cash acquired, and was paid in cash. In addition, in connection with the acquisition the Company converted and assumed approximately 288,742 non-vested stock units and 183,780 stock options for which the vesting period reset fully upon the closing of the transaction. Transaction costs associated with the acquisition are currently estimated at $3.5 million, of which the Company expensed $0.6 million during the three months ended June 30, 2011 and are included in general and administrative expense in the accompanying condensed consolidated statements of income.

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, thereby 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):

	June 30, 2011				December 31, 2010			
Description of the	**Amortized Cost**	**Gross Unrealized**	**Gross Unrealized**	**Fair Value**	**Amortized Cost**	**Gross Unrealized**	**Gross Unrealized**	**Fair Value**

Securities		Gains	Losses			Gains	Losses	
Agency securities	$ 645,274	$ 3,547	$ (263)	$ 648,558	$ 728,177	$ 2,134	$ (780)	$ 729,531
Corporate securities	508,768	986	(419)	509,335	453,279	933	(1,107)	453,105
Municipal securities	81,144	112	(8)	81,248	28,681	8	(30)	28,659
Government securities	28,897	216		29,113	77,976	245	(19)	78,202
Total	$ 1,264,083	$ 4,861	$ (690)	$ 1,268,254	$ 1,288,113	$ 3,320	$ (1,936)	$ 1,289,497

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, 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.

For the three and six months ended June 30, 2011, the Company received proceeds from sales of available-for-sale investments of $215.3 million and $395.7 million, respectively, and for the three and six months ended June 30, 2010, it received proceeds from the sales of available-for-sale investments of $127.7 million and $243.9 million, respectively. For the three and six months ended June 30, 2011, the Company had realized gains on the sales of available-for-sale investments of $0.3 million and $0.4 million, respectively. For the three and six months ended June 30, 2011, the Company had realized losses on available-for-sale investments of $0.4 million and $1.1 million, respectively, primarily related to prepayments at par of securities purchased at a premium. For the three and six months ended June 30, 2010, the Company had realized gains on the sales of available-for-sale investments of $2.4 million and $2.6 million, respectively. For the three and six months ended June 30, 2010, the Company had realized losses on the sales of available-for-sale investments of $0.3 million for both periods, primarily related to prepayments at par of securities purchased at a premium. All realized gains and losses related to the sales of available-for-sale investments are included in other income (expense), 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 June 30, 2011 were approximately five months and seven 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 $0.7 million and $1.9 million as of June 30, 2011 and December 31, 2010, respectively. The decrease in gross unrealized losses when comparing June 30, 2011 to December 31, 2010 was primarily due to changes in interest rates. Also contributing to the decrease in gross unrealized losses was the improvement in the market value of 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 June 30, 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 $29.4 million and $21.3 million as of June 30, 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.

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

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 June 30, 2011	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Assets:				
Available-for-sale securities:				
Agency securities	$ 648,558	$	$ 648,558	$
Corporate securities	509,335		459,554	49,781
Municipal securities	81,248		81,248	
Government securities	29,113		29,113	
Prepaid expenses and other current assets:				
Foreign currency derivatives	11,237		11,237	
Total assets	$ 1,279,491	$	$ 1,229,710	$ 49,781
Accrued expenses and other current liabilities:				
Foreign currency derivatives	3,846		3,846	
Total liabilities	$ 3,846	$	$ 3,846	$

The Company s fixed income available-for-sale security portfolio generally consists of high quality, investment grade securities from diverse issuers with a minimum credit rating of A-/A3 and a weighted average credit rating of AA+/Aa1. 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.

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

	Short-term Investments (in thousands)

Balance at December 31, 2010	$	49,340
Decrease in previously recognized unrealized losses included in accumulated other comprehensive income		441
Balance at June 30, 2011	$	49,781

Table of Contents

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 June 30, 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 43,100,000 shares of common stock of which 5,500,000 shares were authorized by the Company s Board of Directors in April 2011 and subsequently approved by its stockholders in May 2011. 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 June 30, 2011, there were 28,609,204 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 16,924,892 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 June 30, 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 $0.8 million and $1.7 million for the three and six months ended June 30, 2011, respectively.

Stock-Based Compensation

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

Income Statement Classifications	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cost of services revenues	**$ 396**	$ 333	**$ 664**	$ 628
Research and development	**6,181**	14,677	**11,866**	28,611
Sales, marketing and services	**7,152**	8,158	**13,184**	15,068
General and administrative	**7,024**	4,978	**12,923**	8,766

Total	**$**	**20,753**	$	28,146	**$**	**38,637**	$	53,073

Table of Contents

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 June 30, 2011 was $23.82. The total intrinsic value of options exercised during the three and six months ended June 30, 2011 was $66.2 million and $123.8 million, respectively. 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 June 30, 2011, there was $79.4 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 2.29 years.

The assumptions used to value option grants are as follows:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Expected volatility factor	**0.38**	0.31	**0.38 - 0.39**	0.31 - 0.33
Approximate risk free interest rate	**1.03%**	1.55%	**1.03% - 1.10%**	1.45% - 1.55%
Expected term (in years)	**3.27**	3.16	**3.27**	3.16
Expected dividend yield	**0%**	0%	**0%**	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.

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 awards vest on the 3rd 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 June 30, 2011, the number of non-vested stock units outstanding was 1,427,484 and there was $68.0 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 2.41 years.

Table of Contents

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 June 30, 2011, the number of restricted stock units granted pursuant to these awards was 175,667 and there was $1.0 million of total unrecognized compensation cost related to restricted stock unit awards. The unrecognized cost is expected to be recognized over 0.5 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.

The following table presents the change in goodwill allocated to the Company s reportable segments during the six months ended June 30, 2011 (in thousands):

	Balance at January 1, 2011	Additions	Other[2]	Balance at June 30, 2011
Enterprise division	$ 733,720	$ 6,370	$	$ 740,090
Online Services division	187,380	109,368	6,176	302,924
Consolidated	$ 921,100	$ 115,738[1]	$ 6,176	$ 1,043,014

(1) Amount primarily relates to acquisitions. See Note 4 for more information regarding the Company s acquisitions.
(2) 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):

	June 30, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Product related intangible assets	**$ 340,270**	**$ 241,940**	$ 332,878	$ 218,915
Other	**214,080**	**124,062**	178,395	114,214
Total	**$ 554,350**	**$ 366,002**	$ 511,273	$ 333,129

Amortization of product related intangible assets, which consists primarily of product related technologies and patents, was $12.5 million and $12.4 million for the three months ended June 30, 2011 and 2010, respectively, and $25.2 million and $24.8 million for the six months ended June 30, 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 $3.9 and $3.8 million for the three months ended June 30, 2011 and 2010, respectively, and $7.4 and $7.9 million for the six months ended June 30, 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	$ 62,262
2012	47,864
2013	41,058
2014	34,309
2015	13,958

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 foreign subsidiaries, which guarantees are secured by a pledge of shares of certain foreign subsidiaries. During the three and six months ended June 30, 2011, no borrowings were made under the Credit Facility, as amended, and as of June 30, 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 June 30, 2011, the Company was in compliance with all covenants of the Credit Facility. The Company currently does not plan to renew the credit facility upon expiration on September 27, 2011.

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 (expense), net. Accounting policies of the Company s segments are the same as its consolidated accounting policies.

17

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Net revenues:				
Enterprise division	**$ 424,311**	$ 369,222	**$ 815,427**	$ 698,544
Online Services division	**106,479**	89,211	**206,251**	174,161
Consolidated	**$ 530,790**	$ 458,433	**$ 1,021,678**	$ 872,705
Segment profit:				
Enterprise division	**$ 116,619**	$ 95,251	**$ 217,068**	$ 170,709
Online Services division	**16,203**	23,241	**30,753**	41,800
Unallocated expenses (1):				
Amortization of intangible assets	**(16,479)**	(16,193)	**(32,687)**	(32,708)
Restructuring		(335)	**(24)**	(835)
Net interest and other income	**5,088**	875	**12,660**	4,808
Stock-based compensation	**(20,753)**	(28,146)	**(38,637)**	(53,073)
Consolidated income before income taxes	**$ 100,678**	$ 74,693	**$ 189,133**	$ 130,701

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

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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Net revenues:				
Enterprise division				
Desktop Solutions revenues (1)	**$ 304,652**	$ 279,769	**$ 593,768**	$ 535,679
Datacenter and Cloud Solutions revenues (2)	**93,259**	70,743	**170,926**	128,948
Enterprise technical services (3)	**21,303**	14,023	**40,781**	24,629
Other	**5,097**	4,687	**9,952**	9,288
Total Enterprise division revenues	**424,311**	369,222	**815,427**	698,544
Online Services division revenues	**106,479**	89,211	**206,251**	174,161
Total net revenues	**$ 530,790**	$ 458,433	**$ 1,021,678**	$ 872,705

(1) 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.

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

(3) Technical services revenues are primarily comprised of revenues from consulting and education services.

Table of Contents

Revenues by Geographic Location

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net revenues:				
Enterprise division				
Americas	**$ 235,003**	$ 203,199	**$ 452,475**	$ 380,931
EMEA	**135,949**	125,160	**269,322**	244,515
Asia-Pacific	**53,359**	40,863	**93,630**	73,098
Total Enterprise division revenues	**424,311**	369,222	**815,427**	698,544
Online Services division				
Americas	**90,660**	81,933	**178,950**	160,124
EMEA	**13,434**	5,635	**22,721**	10,932
Asia-Pacific	**2,385**	1,643	**4,580**	3,105
Total Online Services division revenues	**106,479**	89,211	**206,251**	174,161
Total net revenues	**$ 530,790**	$ 458,433	**$ 1,021,678**	$ 872,705

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.

	June 30, 2011	December 31, 2010
	(In thousands)	
Identifiable assets:		
Enterprise division	**$ 3,386,325**	$ 3,386,392
Online Services division	**483,364**	317,208
Total identifiable assets	**$ 3,869,689**	$ 3,703,600

The increase in identifiable assets in the Online Services division 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 as of June 30, 2011 since the inception of the restructuring program 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 and six months ended June 30, 2011, and were $0.3 million and $0.8 million, respectively, during the three and six months ended June 30, 2010. All charges for the periods presented are attributable to the Company s Enterprise division.

Restructuring accruals

As of June 30, 2011, the $0.4 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 six months ended June 30, 2011 is summarized as follows (in thousands):

	Total
Balance at January 1, 2011	$ 1,275
Employee severance and related costs	24
Adjustments to non-cancelable lease costs and other charges	
Payments	(926)
Reversal of previous charges	
Balance at June 30, 2011	$ 373

Table of Contents

12. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives Designated as Hedging Instruments

As of June 30, 2011, the Company s derivative assets and liabilities primarily 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.

The total cumulative unrealized gain on cash flow derivative instruments was $7.3 million and $6.1 million at June 30, 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 June 30, 2011 is expected to be recognized in income over the next twelve months at the same time the hedged items are recognized in income.

Derivatives not Designated as Hedges

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.

These contracts 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. There were no assets or liabilities related to derivatives not designated as hedges as of December 31, 2010.

Fair Values of Derivative Instruments

	Asset Derivatives				Liability Derivatives			
	(In thousands)							
	June 30, 2011		December 31, 2010		June 30, 2011		December 31, 2010	
Derivatives Designated as Hedging Instruments	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Foreign currency forward contracts	Prepaid expenses and other current assets	$11,019	Prepaid expenses and other current assets	$13,192	Accrued expenses and other current liabilities	$3,479	Accrued expenses and other current liabilities	$6,745

	Asset Derivatives				Liability Derivatives			
	(In thousands)							
	June 30, 2011		December 31, 2010		June 30, 2011		December 31, 2010	
Derivatives Not Designated as Hedging Instruments	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**

Foreign currency forward contracts	Prepaid expenses and other current assets	$218	Prepaid expenses and other current assets	$	Accrued expenses and other current liabilities	$367	Accrued expenses and other current liabilities	$

20

The Effect of Derivative Instruments on Financial Performance

Derivatives in Cash Flow Hedging Relationships	For the Three Months Ended June 30, (In thousands) Amount of 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
Foreign currency forward contracts	$ (1,580)	$ (4,499)	Operating expenses	$ (4,874)	$ (1,228)

Derivatives in Cash Flow Hedging Relationships	For the Six Months Ended June 30, (In thousands) 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
Foreign currency forward contracts	$ 1,257	$ (10,970)	Operating expenses	$ (5,494)	$ (4,750)

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

Derivatives Not Designated as Hedging Instruments	For the Three Months Ended June 30, (In thousands) Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
		2011	2010
Foreign currency forward contracts	Other income, net	$ 548	$ (394)

Derivatives Not Designated as Hedging Instruments	For the Six Months Ended June 30, (In thousands) Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
		2011	2010
Foreign currency forward contracts	Other income, net	$ 1,414	$ (488)

Outstanding Foreign Currency Forward Contracts

As of June 30, 2011, the Company had the following net notional foreign currency forward contracts outstanding (in thousands):

Foreign Currency	Currency Denomination
Australian dollars	AUD 19,299
British pounds sterling	GBP 21,633
Canadian dollars	CAD 3,151
Chinese renminbi	CNY 9,281
Euro	EUR 31,887

Hong Kong dollars	HKD 26,981
Indian rupees	INR 36,512
Japanese yen	JPY 744,338
Singapore dollars	SGD 7,410
Swiss francs	CHF 30,839

13. COMPREHENSIVE INCOME

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Net income attributable to Citrix Systems, Inc.	**$ 81,944**	$ 47,557	**$ 155,447**	$ 94,906
Other comprehensive income:				
Change in unrealized gain on available-for-sale securities	**1,625**	91	**2,266**	2,807
Net change due to derivative instruments	**(1,580)**	(4,499)	**1,257**	(10,970)
Foreign currency translation adjustments	**1,940**	(507)	**7,373**	(367)
Comprehensive income	**83,929**	42,642	**166,343**	86,376
Less: Comprehensive income attributable to non-controlling interest	**536**		**692**	
Comprehensive income attributable to Citrix Systems, Inc.	**$ 83,393**	$ 42,642	**$ 165,651**	$ 86,376

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

	June 30, 2011	**December 31, 2010**
Unrealized gain on available-for-sale securities	**$ 2,898**	$ 632
Unrealized gain on derivative instruments	**7,340**	6,083
Cumulative foreign currency translation adjustments	**6,487**	(886)
Other comprehensive loss on pension liability	**(3,806)**	(3,806)
Accumulated other comprehensive income	**$ 12,919**	$ 2,023

14. INCOME TAXES

The Company s net unrecognized tax benefits totaled approximately $65.5 million and $63.9 million as of June 30, 2011 and December 31, 2010, respectively. There was $0.8 million included in the balance at June 30, 2011 for tax positions which would not affect the annual effective tax rate. During the quarter ended June 30, 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 June 30, 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 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 June 30, 2011, the Company had approximately $119.4 million in net 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 strategic management and operational activities in overseas subsidiaries and its foreign earnings are taxed at rates that are generally lower than in the United States. The Company does not expect to remit earnings from its foreign subsidiaries. The Company s effective tax rate was approximately 19.1% and 36.3% for the three months ended June 30, 2011 and 2010, respectively, and 18.2% and 27.4% for the six months ended June 30, 2011 and 2010, respectively. The decrease in the effective tax rate when comparing the three months ended June 30, 2011 to the three months ended June 30, 2010 and the six months ended June 30, 2011 to the six months ended June 30, 2010 is primarily due to the charge related to the settlement in principle with the IRS during the second quarter of 2010. The Company s effective tax rate generally differs from the U.S. federal statutory rate of 35% due primarily to lower tax rates on earnings generated by the Company s foreign operations that are taxed primarily in Switzerland. The Company has not provided for U.S. taxes for those earnings because it plans to reinvest all of those earnings indefinitely outside the United States.

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 June 30, 2011, approximately $411.6 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. As of June 30, 2011, the Company did not have any prepaid notional amounts outstanding under structured stock repurchase programs and it did not make any up-front payments to financial institutions related to structured stock repurchase agreements in 2011.

During the three months ended June 30, 2011, the Company expended approximately $100.0 million on open market purchases, repurchasing 1,208,400 shares of outstanding common stock at an average price of $82.72. During the six months ended June 30, 2011, the Company expended approximately $199.9 million on open market purchases, repurchasing 2,660,500 shares of outstanding common stock at an average price of $75.14.

During the three months ended June 30, 2010, the Company expended approximately $100.0 million on open market purchases, repurchasing 2,138,500 shares of outstanding common stock at an average price of $46.74. During the six months ended June 30, 2010, the Company expended approximately $199.9 million on open market purchases, repurchasing 4,427,100 shares of outstanding common stock at an average price of $45.16.

Shares for Tax Withholding

During the three months ended June 30, 2011, the Company withheld 39,145 shares from stock units that vested totaling $3.3 million to satisfy minimum tax withholding obligations that arose on the vesting of stock units. During the six months ended June 30, 2011, the Company withheld 163,740 shares from stock units that vested totaling $12.1 million to satisfy minimum 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 June 30, 2010, the Company withheld 31,126 shares from stock units that vested totaling $1.5 million to satisfy minimum tax withholding obligations that arose on the vesting of stock units. During the six months ended June 30, 2010, the Company

withheld 91,601 shares from stock units that vested totaling $4.1 million to satisfy minimum 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 June 30, 2011, the total remaining obligation on these leases was approximately $6.1 million, of which $2.8 million was accrued as of June 30, 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.

17. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05 *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, to increase the prominence of other comprehensive income in financial statements. Under the provisions of ASU No. 2011-05, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income. The accounting changes summarized in ASU No. 2011-05 are effective for fiscal years beginning on or after December 15, 2011, with early adoption permitted. The Company is currently in the process of evaluating the impact of this standard on its consolidated financial statements and disclosures.

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, market positioning and opportunities, customer demand, financial information and results of operations for future periods, product and price competition, strategy and growth initiatives, seasonal factors, stock-based compensation, licensing and subscription renewal programs, computer system enhancements, international operations and expansion, valuations of investments and derivative instruments, reinvestment or repatriation of foreign earnings, fluctuations in foreign exchange rates, contractual obligations, our Credit Facility, tax matters, the finalization of our tax settlement and written agreement with the IRS, the Netviewer, Kaviza Inc. and Cloud.com, Inc. acquisitions, the FASB s authoritative guidance, leasing activities and obligations, stock repurchases, investment transactions (including our investment in bonds issued by AIG Matched Funding Corporation, changes in domestic and foreign economic conditions and credit markets, acquired in-process technology, liquidity, litigation matters, intellectual property matters, distribution channels, stock price and payment of dividends, 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 June 30, 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 server virtualization, cloud networking and cloud infrastructure products, 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. Offsetting the uneven demand in European countries, we continue to see demand growth in tha Americas and Asia-Pacific regions.

25

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 cloud networking products, cloud infrastructure and 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 cloud 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.

In July 2011, we acquired Cloud.com, Inc., or Cloud.com a market leading provider of software infrastructure platforms for cloud providers. Cloud.com s CloudStack product line helps providers of all types deploy and manage simple, cost-effective cloud services that are scalable, secure, and open by design. See *2011 Acquisitions* below for more information related to our acquisition of Cloud.com.

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 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 is 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 expanding our go-to-market reach and customer attach points, technological innovation, engineering excellence, selective and strategic acquisitions of technology, talent and/or businesses, and through a commitment to delivering high-quality products and services to customers and partners.

We 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 June 30, 2011 compared to the three months ended June 30, 2010, a summary of our results included:

Product License revenue increased 15.2% to $171.3 million;

License Updates revenue increased 9.1% to $183.9 million;

Online Services revenue increased 19.4% to $106.5 million;

Technical Services revenue increased 33.2% to $69.1 million;

Operating income increased 29.5% to $95.6 million; and

Diluted net income per share increased 70.4% to $0.43.

Table of Contents

The increase in our Product License revenue was driven by increased sales of our Datacenter and Cloud Solutions products, led by NetScaler and our Desktop Solutions products, led by XenDesktop. We currently target our Product License revenue to increase when comparing the third quarter of 2011 to the second quarter of 2011. The increase in License Updates revenue was primarily driven by an increase in renewals of our Subscription Advantage product. Our Online services revenue increased due to increased sales of our web collaboration services. Technical Services revenue increased due to increases in support revenues of $9.2 million driven by increased sales of our support related to our Datacenter and Cloud Solutions and a $5.0 million increase in sales of consulting services related to our Enterprise division s products. We currently target that total revenue will increase when comparing the third quarter of 2011 to the second 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 enables the extension of our Online Services business in Europe. The total 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 $2.8 million, of which we expensed $0.4 million and $0.8 million during the three and six months ended June 30, 2011, respectively, and are included in general and administrative expense in 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 (in thousands)	Weighted-Average Asset Life
Current assets	$ 11,683	
Other assets	330	
Property and equipment	2,350	Various
Intangible assets	28,806	4-7 years
Goodwill	109,368	Indefinite
Assets acquired	152,537	
Current liabilities assumed	(18,144)	
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, and 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 $109.4 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. We continue to evaluate certain tax assets and liabilities related to the Netviewer Acquisition.

27

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

	Fair Value (in thousands)	Weighted-Average 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	

Kaviza Inc.

We present non-controlling interests of less-than-wholly-owned subsidiaries within the equity section of our condensed consolidated financial statements in accordance with the authoritative guidance for the presentation and disclosure of non-controlling interests of consolidated subsidiaries. In May 2011, we acquired all of the non-controlling interest of Kaviza Inc., or Kaviza, a provider of virtual desktop infrastructure solutions, for $17.2 million. In addition, we also deposited an additional $3.0 million to be held in escrow. As a result of this transaction, we have obtained a 100% interest in this subsidiary. In accordance with the authoritative guidance, the excess of the proceeds paid over the carrying amount of the non-controlling interest of Kaviza has been reflected as a reduction of paid in capital. In addition, in connection with the purchase of the non-controlling interest of Kaviza, we converted and assumed 88,687 non-vested stock units and 33,301 stock options with existing vesting periods.

Cloud.com

In July 2011, we acquired all of the issued and outstanding securities of Cloud.com, Inc., or Cloud.com, a privately held provider of software infrastructure platforms for cloud providers. Cloud.com will become part of our Enterprise division and the acquisition further establishes us as a leader in infrastructure for the growing cloud provider market. The total preliminary consideration for this transaction was approximately $158.9 million, net of cash acquired, and was paid in cash. In addition, in connection with the acquisition we converted and assumed approximately 288,742 non-vested stock units and 183,780 stock options for which the vesting period reset fully upon the closing of the transaction. Transaction costs associated with the acquisition are currently estimated at $3.5 million, of which we expensed $0.6 million during the three months ended June 30, 2011 and are included in general and administrative expense in our condensed consolidated statements of income.

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, thereby 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 acquisition. 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, net of cash acquired, 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 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 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 are 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.

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 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 and six months ended June 30, 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 June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	Three Months Ended June 30, 2011 vs. June 30, 2010	Six Months Ended June 30, 2011 vs. June 30, 2010
Revenues:						
Product licenses	**$ 171,326**	$ 148,733	**$ 321,586**	$ 271,439	15.2%	18.5%
License updates	**183,875**	168,601	**361,751**	331,556	9.1	9.1
Online services	**106,479**	89,211	**206,251**	174,161	19.4	18.4
Technical services	**69,110**	51,888	**132,090**	95,549	33.2	38.2
Total net revenues	**530,790**	458,433	**1,021,678**	872,705	15.8	17.1
Cost of net revenues:						
Cost of license revenues	**18,448**	15,149	**32,489**	27,800	21.8	16.9
Cost of services revenues	**37,906**	25,989	**68,572**	49,679	45.9	38.0
Amortization of product related intangible assets	**12,542**	12,417	**25,241**	24,775	1.0	1.9
Total cost of net revenues	**68,896**	53,555	**126,302**	102,254	28.6	23.5
Gross margin	**461,894**	404,878	**895,376**	770,451	14.1	16.2
Operating expenses:						
Research and development	**83,312**	79,543	**166,030**	157,245	4.7	5.6
Sales, marketing and services	**199,359**	186,601	**393,602**	357,121	6.8	10.2
General and administrative	**79,696**	60,805	**151,801**	121,424	31.1	25.0
Amortization of other intangible assets	**3,937**	3,776	**7,446**	7,933	4.3	(6.1)
Restructuring		335	**24**	835	*	*
Total operating expenses	**366,304**	331,060	**718,903**	644,558	10.6	11.5
Income from operations	**95,590**	73,818	**176,473**	125,893	29.5	40.2
Interest income	**3,727**	3,837	**7,666**	7,393	(2.9)	3.7
Other income (expense), net	**1,361**	(2,962)	**4,994**	(2,585)	*	*
Income before income taxes	**100,678**	74,693	**189,133**	130,701	34.8	44.7
Income taxes	**19,270**	27,136	**34,378**	35,795	(29.0)	(4.0)
Consolidated net income	**81,408**	47,557	**154,755**	94,906	71.2	63.1
Less: Net loss attributable to non-controlling interest	**536**		**692**		*	*
Net income attributable to Citrix Systems, Inc.	**$ 81,944**	$ 47,557	**$ 155,447**	$ 94,906	72.3%	63.8%

* not meaningful

Revenues

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 cloud networking products NetScaler, Access Gateway and Branch Repeater and our cloud 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.

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 connectivity product, 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 June 30,		Six Months Ended June 30,		Three Months Ended June 30, 2011 vs. June 30, 2010	Six Months Ended June 30, 2011 vs. June 30, 2010
	2011	2010	2011	2010		
			(In thousands)			
Product Licenses	**$ 171,326**	$ 148,733	**$ 321,586**	$ 271,439	$ 22,593	$ 50,147
License Updates	**183,875**	168,601	**361,751**	331,556	15,274	30,195
Online Services	**106,479**	89,211	**206,251**	174,161	17,268	32,090
Technical Services	**69,110**	51,888	**132,090**	95,549	17,222	36,541
Total net revenues	**$ 530,790**	$ 458,433	**$ 1,021,678**	$ 872,705	$ 72,357	$ 148,973

Product Licenses

Product License revenue increased for the three months ended June 30, 2011 compared to the three months ended June 30, 2010 primarily due to increased sales of our Datacenter and Cloud Solutions, led by NetScaler of $12.3 million and due to increased sales of our of our Desktop Solutions, led by XenDesktop of $9.7 million. Product License revenues increased for the six months ended June 30, 2011 compared to the six months ended June 30, 2010 primarily due to increases in sales of our Desktop Solutions products of $26.8 million and our Datacenter and Cloud Solutions of $22.4 million. These increases in Product License revenue were primarily due to the factors discussed in the Executive Summary above. We currently target Product license sales to increase when comparing the third quarter of 2011 to the third quarter of 2010 due to the factors discussed in the Executive Summary Overview above.

License Updates

License Updates revenue increased for the three months ended June 30, 2011 compared to the three months ended June 30, 2010 primarily due to renewals related to our Subscription Advantage product over a larger base of subscribers. License Updates revenue increased for the six months ended June 30, 2011 compared to the six months ended June 30, 2010 due to renewals related to our Subscription Advantage product over a larger base of subscribers of $15.8 million and an increase in new Subscription Advantage license sales related to increased sales of XenDesktop of $14.4 million. We currently anticipate that License Updates revenue will increase when comparing the third quarter of 2011 to the third quarter of 2010.

Online Services

Online Services revenue increased for the three months ended June 30, 2011 compared to the three months ended June 30, 2010 and for the six months ended June 30, 2011 compared to the six months ended June 30, 2010 primarily due to increased sales of our web collaboration products. We are currently targeting that Online Services revenue will increase when comparing the third quarter of 2011 to the third quarter of 2010.

Technical Services

Technical Services revenue increased for the three months ended June 30, 2011 compared to the three months ended June 30, 2010 primarily due to increases in support revenues of $9.2 million driven by increased sales of our Datacenter and Cloud Solutions, primarily NetScaler, and an increase in consulting revenues of $5.0 million related to increased implementation sales of our Enterprise division s products. Technical Services revenue increased for the six months ended June 30, 2011 compared to the six months ended June 30, 2010 primarily due to increases in support revenues of $17.7 million driven by increased sales of our Datacenter and Cloud Solutions, primarily NetScaler, and an increase in consulting revenues of $11.2 million related to increased implementation sales of our Enterprise division s products. We currently anticipate that Technical Services revenues will increase when comparing the third quarter of 2011 to the third quarter of 2010 consistent with the targeted increase in Product License revenue described above.

Table of Contents

Deferred Revenue

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 $50.8 million as of June 30, 2011 compared to December 31, 2010 primarily due to increased sales of our Subscription Advantage product of $19.7 million, increased sales of our online service agreements of $18.4 million and increased sales of our support services of $12.5 million. We currently anticipate that deferred revenues will continue to increase for the remainder of 2011.

International Revenues

International revenues (sales outside the United States) accounted for approximately 43.4% of our net revenues for the three months ended June 30, 2011 and 42.5% of our net revenues for the three months ended June 30, 2010. International revenues accounted for approximately 44.9% of our net revenues for the six months ended June 30, 2011 and 42.7% of our net revenues for the six months ended June 30, 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 June 30,		Six Months Ended June 30,		Three Months Ended June 30, 2011 vs. June 30, 2010	Increase for the Six Months Ended June 30, 2011 vs. June 30, 2010
	2011	**2010**	**2011**	**2010**		
Enterprise division	**$ 424,311**	$ 369,222	**$ 815,427**	$ 698,544	14.9%	16.7%
Online Services division	**106,479**	89,211	**206,251**	174,161	19.4	18.4
Net revenues	**$ 530,790**	$ 458,433	**$ 1,021,678**	$ 872,705	15.8%	17.1%

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 June 30,		Six Months Ended June 30,		Three Months Ended June 30, 2011 vs. June 30, 2010	Six Months Ended June 30, 2011 vs. June 30, 2010
	2011	**2010**	**2011**	**2010**		
			(In thousands)			
Cost of product license revenues	**$ 18,448**	$ 15,149	**$ 32,489**	$ 27,800	$ 3,299	$ 4,689
Cost of services revenues	**37,906**	25,989	**68,572**	49,679	11,917	18,893
Amortization of product related intangible assets	**12,542**	12,417	**25,241**	24,775	125	466
Total cost of net revenues	**$ 68,896**	$ 53,555	**$ 126,302**	$ 102,254	$ 15,341	$ 24,048

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 June 30, 2011 compared to the three months ended June 30, 2010 and for the six months ended June 30, 2011 compared to the six months ended June 30, 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 third quarter of 2011 to the third quarter of 2010 consistent with the targeted increase in Product License sales.

Table of Contents

Cost of services revenues increased for the three months ended June 30, 2011 compared to the three months ended June 30, 2010 by $5.5 million consistent with the increase in sales of our technical services related to our Enterprise products and $4.4 million primarily due to an increase in sales of our web collaboration products consistent with the increase in revenue as described above. Cost of services revenues increased for six months ended June 30, 2011 compared to the six months ended June 30, 2010 by $9.7 million consistent with the increase in revenue of technical services related to our Enterprise products and increased $7.3 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 third quarter of 2011 to the third quarter of 2010 consistent with the targeted increase in Online Services and Technical Services revenues as discussed above.

Gross Margin

Gross margin as a percentage of revenue was 87.0% for the three months ended June 30, 2011 and 88.3% for the three months ended June 30, 2010. Gross margin as a percentage of revenue was 87.6% for the six months ended June 30, 2011 and 88.3% for the six months ended June 30, 2010.

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

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30, 2011 vs. June 30, 2010	Six Months Ended June 30, 2011 vs. June 30, 2010
	2011	**2010**	**2011**	**2010**		
			(In thousands)			
Research and development	**$ 83,312**	$ 79,543	**$ 166,030**	$ 157,245	$ 3,769	$ 8,785

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 June 30, 2011 compared to the three months ended June 30, 2010 primarily due to a $11.4 million increase in compensation and other employee related costs primarily related to increased headcount due to strategic hiring and acquisitions and annual merit increases. Partially offsetting the increases in research and development costs when comparing the three months ended June 30, 2011 to the three months ended June 30, 2010 is an $8.5 million decrease in stock-based compensation expense due to stock-based awards related to certain acquisitions becoming fully vested.

Research and development expenses increased during the six months ended June 30, 2011 compared to the six months ended June 30, 2010 primarily due to a $22.1 million increase in compensation and other employee related costs. Also contributing to the increase in research and development expenses was a $4.0 million increase in facilities and related depreciation. These increases primarily relate to increased headcount due to strategic hiring and acquisitions and annual merit increases. Partially offsetting the increases in research and development costs when comparing the six months ended June 30, 2011 to the six months ended June 30, 2010 is a $16.7 million decrease in stock-based compensation expense due to stock-based awards related to certain acquisitions becoming fully vested.

We are currently targeting an increase in research and development expense when comparing the third quarter of 2011 to the second quarter of 2011 due to our Cloud.com acquisition, development of existing and new products, and investments in research and development of advanced technologies for future application.

34

Table of Contents

Sales, Marketing and Services Expenses

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30, 2011 vs. June 30, 2010	Six Months Ended June 30, 2011 vs. June 30, 2010
	2011	2010	2011	2010		
			(In thousands)			
Sales, marketing and services	**$ 199,359**	$ 186,601	**$ 393,602**	$ 357,121	$ 12,758	$ 36,481

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 June 30, 2011 compared to the three months ended June 30, 2010 primarily due to a $13.6 million increase in compensation, including annual merit increases, and employee related costs due to additional headcount in our sales force and technical services group, as well as from our acquisition of Netviewer.

Sales, marketing and services expenses increased during the six months ended June 30, 2011 compared to the six months ended June 30, 2010 primarily due to a $27.4 million increase in compensation, including annual merit increases, 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 $5.4 million increase in marketing program costs related to various marketing campaigns and events.

We are currently targeting an increase in sales, marketing and services expenses when comparing the third quarter of 2011 to the second quarter of 2011 due to our Cloud.com acquisition and as we continue to increase our sales and technical services capacity.

General and Administrative Expenses

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30, 2011 vs. June 30, 2010	Six Months Ended June 30, 2011 vs. June 30, 2010
	2011	2010	2011	2010		
			(In thousands)			
General and administrative	**$ 79,696**	$ 60,805	**$ 151,801**	$ 121,424	$ 18,891	$ 30,377

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 for the three months ended June 30, 2011 compared to the three months ended June 30, 2010 primarily due to an $11.0 million increase in compensation and employee related costs due to annual merit increases and additional headcount, primarily in IT as well as from our acquisition of Netviewer. Also contributing to the increase in general and administrative expense is a $4.0 million increase in professional fees primarily related to acquisition and strategic investment activity.

General and administrative expenses increased for the six months ended June 30, 2011 compared to the six months ended June 30, 2010 primarily due to a $22.2 million increase in compensation and employee related costs due to annual merit increases and additional headcount, primarily in IT as well as from our acquisition of Netviewer. Also contributing to the increase in general and administrative expense is a $3.4 million increase in professional fees primarily related to acquisition and strategic investment activity.

We currently anticipate that general and administrative expenses will increase when comparing the third quarter of 2011 to the second quarter of 2011 due primarily to the acquisition of Cloud.com and related transaction costs and professional fees and to a lesser extent costs to support the growth in our business.

Table of Contents

Other Income (Expense), Net

	Three Months Ended June 30, 2011	Six Months Ended June 30,	Three Months Ended June 30, 2011 vs. June 30, 2010	Six Months Ended June 30, 2011 vs. June 30, 2010