

CITRIX SYSTEMS INC
Form 10-Q
September 07, 2007
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

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
(State or other jurisdiction of

incorporation or organization)

851 West Cypress Creek Road

75-2275152
(IRS Employer

Identification No.)

33309

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Fort Lauderdale, Florida
(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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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

As of August 30, 2007 there were 179,755,470 shares of the registrant's Common Stock, \$.001 par value per share, outstanding.

Table of Contents

CITRIX SYSTEMS, INC.

Form 10-Q

For the Quarterly Period Ended March 31, 2007

CONTENTS

	Page Number
PART I: FINANCIAL INFORMATION	
Item 1. <u>Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets:</u> <u>March 31, 2007 (Unaudited) and December 31, 2006</u>	3
<u>Condensed Consolidated Statements of Income:</u> <u>Three Months ended March 31, 2007 and 2006 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows:</u> <u>Three Months ended March 31, 2007 and 2006 (Unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	39
Item 4. <u>Controls and Procedures</u>	39
PART II: OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	40
Item 1A. <u>Risk Factors</u>	40
Item 6. <u>Exhibits</u>	53
<u>Signature</u>	54

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

	March 31, 2007 (unaudited)	December 31, 2006
	(In thousands, except par value)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 449,571	\$ 349,054
Short-term investments	200,185	152,652
Accounts receivable, net of allowances of \$3,325 and \$4,037 at March 31, 2007 and December 31, 2006, respectively	168,047	204,974
Inventories, net	9,709	6,619
Prepaid expenses and other current assets	56,496	45,646
Current portion of deferred tax assets, net	55,620	52,792
Total current assets	939,628	811,737
Restricted cash equivalents and investments	63,671	63,815
Long-term investments	195,713	241,675
Property and equipment, net	99,732	92,580
Goodwill	675,774	631,690
Other intangible assets, net	154,858	130,462
Long-term portion of deferred tax assets, net	46,436	41,594
Other assets	11,568	10,920
	\$ 2,187,380	\$ 2,024,473
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 46,821	\$ 45,217
Accrued expenses	166,468	145,664
Income taxes payable	20,457	11,892
Current portion of deferred revenues	351,452	332,770
Total current liabilities	585,198	535,543
Long-term portion of deferred revenues	24,750	23,518
Other liabilities	11,459	1,123
Commitments and contingencies		
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; 239,253 and 238,156 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively	239	238
Additional paid-in capital	1,732,748	1,655,530
Retained earnings	1,031,941	1,006,706
Accumulated other comprehensive income	3,410	4,180

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

	2,768,338	2,666,654
Less common stock in treasury, at cost (59,465 shares at March 31, 2007 and December 31, 2006)	(1,202,365)	(1,202,365)
Total stockholders' equity	1,565,973	1,464,289
	\$ 2,187,380	\$ 2,024,473

See accompanying notes.

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

	Three Months Ended March 31,	
	2007	2006
Revenues:		
Product licenses	\$ 122,067	\$ 114,185
License updates	112,808	93,871
Online services	47,211	31,638
Technical services	26,002	20,304
Total net revenues	308,088	259,998
Cost of revenues:		
Cost of license revenues	8,295	6,631
Cost of services revenues	14,891	10,497
Amortization of product related intangible assets	6,228	5,001
Total cost of revenues	29,414	22,129
Gross margin	278,674	237,869
Operating expenses:		
Research and development	46,544	34,685
Sales, marketing and support	130,649	110,027
General and administrative	57,903	40,151
Amortization of other intangibles	4,147	4,032
In-process research and development	1,200	
Total operating expenses	240,443	188,895
Income from operations	38,231	48,974
Interest income	11,375	7,602
Interest expense	(224)	(500)
Other income (expense), net	187	(703)
Income before income taxes	49,569	55,373
Income taxes	11,936	13,910
Net income	\$ 37,633	\$ 41,463
Earnings per share:		
Basic	\$ 0.21	\$ 0.23
Diluted	\$ 0.20	\$ 0.22
Weighted average shares outstanding:		
Basic	179,282	178,169

Diluted

184,357

185,988

See accompanying notes.

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

	Three Months Ended March 31,	
	2007	2006
	(In thousands)	
Operating Activities		
Net income	\$ 37,633	\$ 41,463
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	10,375	9,033
Depreciation and amortization of property and equipment	8,465	6,221
Stock-based compensation expense	13,931	13,885
In-process research and development	1,200	
Provision for doubtful accounts	233	587
Provision for product returns	723	1,179
Provision for (recovery of) inventory reserves	875	(21)
Tax effect of stock-based compensation	2,427	12,394
Excess tax benefit from exercise of stock options	(2,473)	(12,396)
Other non-cash items	551	154
Total adjustments to reconcile net income to net cash provided by operating activities	36,307	31,036
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	38,279	23,832
Inventories	(3,920)	(1)
Prepaid expenses and other current assets	(10,829)	(4,414)
Other assets	(648)	(706)
Deferred tax assets, net	(4,603)	154
Accounts payable	1,548	667
Accrued expenses	38	143
Income taxes payable	8,564	(1,204)
Deferred revenues	20,756	6,427
Other liabilities	(157)	4
Total changes in operating assets and liabilities, net of the effects of acquisitions	49,028	24,902
Net cash provided by operating activities	122,968	97,401
Investing Activities		
Purchases of available-for-sale investments	(99,848)	(185,137)
Proceeds from sales of available-for-sale investments	35,924	
Proceeds from maturities of available-for-sale investments	62,609	2,751
Purchases of property and equipment	(15,613)	(8,903)
Cash paid for acquisitions, net of cash acquired	(57,275)	
Cash paid for licensing agreement	(2,750)	
Other		(465)
Net cash used in investing activities	(76,953)	(191,754)
Financing Activities		
Proceeds from issuance of common stock	20,075	92,219
Excess tax benefit from exercise of stock options	2,427	12,394
Structured stock repurchases, net	40,000	(40,103)
Payments on debt	(8,000)	(31,000)

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Net cash provided by financing activities	54,502	33,510
Change in cash and cash equivalents	100,517	(60,843)
Cash and cash equivalents at beginning of period	349,054	484,035
Cash and cash equivalents at end of period	\$ 449,571	\$ 423,192
Supplemental non-cash investing activity:		
Increase (decrease) in restricted cash equivalents and investments	\$ (144)	\$ 9

See accompanying notes.

Table of Contents

CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2007

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements 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. 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 fourth quarter revenue in any year is typically higher than 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 consolidated financial statements and accompanying notes included in the Citrix Systems, Inc. (the "Company") Form 10-K for the year ended December 31, 2006.

Stock Option Review

On November 30, 2006, after the Company's management conducted a preliminary, limited scope review of certain of its stock option granting practices, the Company's Audit Committee commenced a voluntary, independent investigation of the Company's historical stock option granting practices and related accounting during the period from January 1996 through December 2006. None of the members of the Audit Committee has ever served on the Compensation Committee of the Board of Directors. This voluntary investigation was not in response to any governmental investigation, stockholder lawsuit, whistleblower complaint or inquiries from media organizations. The investigation was conducted with the assistance of independent outside legal counsel and outside forensic accounting consultants, and covered option grants made to all employees during the period from January 1996 through December 2006. This investigation continued throughout the first quarter of 2007 and was completed on June 13, 2007. Management further evaluated all grants (consisting of two employee new hire grants) in December 1995, which was the month the Company completed its initial public offering, and all grants to non-employee directors. The investigation and related review consisted of approximately 191 grant dates (representing over 27,000 individual option grants and approximately 108.7 million stock options). The Company's Annual Report on Form 10-K for the year ended December 31, 2006, which was filed on September 7, 2007, contains a description of the Audit Committee's investigation, management's related review, the conclusions of the Audit Committee and management and the restatement of the Company's consolidated balance sheet as of December 31, 2005 and the related consolidated statements of income, stockholders' equity and comprehensive income and cash flows for the years ended December 31, 2005 and 2004, and each of the quarters in the 2006 and 2005 fiscal years, to reflect additional stock-based compensation expense and related income tax effects for stock option awards granted since December 1995.

As a result of the Audit Committee's investigation and management's related review of the Company's historical stock option granting practices and the associated restatements, the Company could not file its periodic reports with the SEC on a timely basis and, as a result, faced the possibility that its stock would be delisted from the Nasdaq Global Select Market. With the filing of its Annual Report on Form 10-K for the year ended December 31, 2006 and this Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 and the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, the Company believes it has returned to full compliance with SEC reporting requirements and Nasdaq listing requirements and expects that the Nasdaq delisting matter will be closed.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Investments

Short-term and long-term investments at March 31, 2007 and December 31, 2006 primarily consist of corporate securities, government securities and municipal securities. 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. In accordance with Statement of Financial Accounting Standards (SFAS) No. 95, *Statement of Cash Flows*, the Company classifies available-for-sale securities, including its investments in auction rate securities that are available to meet the Company's current operational needs, as short-term. The Company does not recognize changes in the fair value of its investments in income unless a decline in value is considered other-than-temporary in accordance with the Financial Accounting Standards Board (the FASB) Staff Position 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*.

Table of Contents

CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2007

The Company minimizes its credit risk associated with investments by investing primarily in investment grade, highly liquid securities. The Company's policy is designed to limit exposure to any one issuer depending on credit quality. Periodic evaluations of the relative credit standing of those issuers are considered in the Company's investment strategy. The Company uses information provided by third parties to adjust the carrying value of certain of its investments and derivative instruments to fair value at the end of each period. Fair values are based on valuation models that use market quotes and, for certain investments, assumptions as to the creditworthiness of the entities issuing those underlying investments.

Inventory

Inventories are stated at the lower of cost or market on a first-in, first out basis and primarily consist of finished goods. As of March 31, 2007 and December 31, 2006, the provision to reduce obsolete or excess inventories to market was \$6.1 million and \$5.2 million, respectively.

Revenue Recognition

The Company markets and licenses products primarily through multiple channels such as value-added resellers, channel distributors, system integrators, independent software vendors, its Websites and original equipment manufacturers. The Company's product licenses are generally perpetual. The Company also separately sells license updates and services, which may include product training, technical support and consulting services, as well as online services.

The Company's software products are purchased by medium and small-sized businesses, with a minimal number of locations, and larger business enterprises with more complex multiserver environments that deploy the Company's software products on a departmental or enterprise-wide basis. Products may be delivered indirectly by channel distributors or original equipment manufacturers or directly to the end-user by the Company via packaged product or download from the Company's Website. The Company's appliance products are integrated with software that is essential to the functionality of the equipment. The Company provides license updates for appliances, which include unspecified software upgrades and enhancements through its maintenance contracts. Accordingly, for these appliances, the Company accounts for revenue in accordance with SOP No. 97-2, *Software Revenue Recognition, (as amended by SOP 98-4 and SOP 98-9)* and all related interpretations, as described in detail below. The Company's online services are purchased by small and medium sized businesses, as well as, individuals and are centrally hosted on the Company's Websites.

Revenue is recognized when it is earned. The Company's revenue recognition policies are in compliance with SOP 97-2 and related amendments and interpretations. In addition, the Company's online services revenue is recognized in accordance with Emerging Issues Task Force (EITF) No. 00-3, *Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware*. The Company recognizes revenue when all of the following criteria are met: persuasive evidence of the arrangement exists; delivery has occurred and the Company has no remaining obligations; the fee is fixed or determinable; and collectibility 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

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

execute a contract.

Delivery has occurred and the Company has no remaining obligations. For product license and 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 product training and consulting services, the Company fulfills its obligation when the services are performed. For license updates, technical support and online services, the Company assumes that its obligation is satisfied ratably over the respective terms of the agreements, which are typically 12 to 24 months.

Table of Contents

CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2007

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 Company sells license updates and services, which includes technical support, product training and consulting services, and online services separately and it determines vendor specific objective evidence (VSOE) of fair value by the price charged for each of these items when sold separately or based on applicable renewal rates.

Collectibility is probable. The Company determines collectibility 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 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 collectibility 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 evaluation of customer specific information, historical experience and economic market conditions.

Net revenues include the following categories: Product Licenses, License Updates, Online Services and Technical Services. Product Licenses primarily represent fees related to the licensing of the Company s software and appliance products. These revenues are reflected net of sales allowances, cooperative advertising agreements and provisions for stock balancing return rights. License Updates 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. 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. Online Services revenues consist primarily of fees related to online service agreements and are recognized ratably over the contract term. 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 the Company s products, which is recognized as the services are provided.

The Company licenses most of its products bundled with a one year contract for license updates that provide the end-user with free enhancements and upgrades to the licensed product on a when and if available basis. Customers may also elect to purchase subscriptions for license updates, when not bundled with the initial product release or purchase, technical support, product training or consulting services. The Company allocates revenue to license updates and any other undelivered elements of the arrangement based on 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 revenue, 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 the 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.

In the normal course of business, the Company does not permit product returns, but it does provide most of its distributors with stock balancing and price protection rights. Stock balancing rights permit distributors to return products to the Company by the forty-fifth day of the fiscal quarter, subject to ordering an equal dollar amount of the Company s other products prior to the last day of the same fiscal quarter. Price protection rights require that the Company grant retroactive price adjustments for inventories of products held by distributors if it lowers prices for such products. The Company establishes provisions for estimated returns for stock balancing and price protection rights, 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, estimated distributor inventory levels by product, the impact of any new product releases and projected economic conditions. Actual product returns for stock balancing and price protection provisions incurred are, however, dependent upon future events, including the amount of stock balancing activity by distributors and the level of distributor inventories at the time of any price adjustments. The Company continually monitors the factors that influence the pricing of its products and distributor inventory levels and makes adjustments to these provisions when it believes actual returns and other allowances could differ from established reserves. The Company s ability to recognize revenue upon shipment to distributors is predicated on its ability to

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

reliably estimate future stock balancing returns. If actual experience or changes in market condition impairs the Company's ability to estimate returns, it would be required to defer the recognition of revenue until the delivery of the product to the end-user. Allowances for estimated product returns amounted to approximately \$1.1 million and \$1.7 million at March 31, 2007 and December 31, 2006, respectively. The Company has not reduced and has no current plans to reduce its prices for inventory currently held by distributors. Accordingly, there were no reserves required for price protection at March 31, 2007 and December 31, 2006.

Table of Contents

CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2007

The Company also records estimated reductions to revenue for customer programs and incentive offerings including volume-based incentives. If market conditions were to decline, 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.

Accounting for Stock-Based Compensation Plans

The Company's stock-based compensation program is a broad based, long-term retention program that is intended to attract and reward talented employees and align stockholder and employee interests. As of March 31, 2007, the Company had two stock-based compensation plans under which it was granting stock options, shares of non-vested stock and non-vested stock units. The Company is currently granting stock-based awards from its 2005 Equity Incentive Plan (as amended, the 2005 Plan) and 2005 Employee Stock Purchase Plan (the 2005 ESPP). Upon the completion of the 2007 acquisition of Ardenne Delaware, Inc. (Ardenne), the Company assumed the Ardenne Delaware, Inc., 2005 Omnibus Stock Plan and the Ardenne Delaware, Inc., 2006 Restricted Stock Unit Plan. 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, however, 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. During 2006, the Company began awarding non-vested stock units and non-vested stock awards with performance measures to certain key executives as part of its overall compensation program. In addition, during 2006, the Company also began awarding its non-employee directors non-vested stock units with service based vesting.

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), 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. On February 7, 2007, subject to stockholder approval, the Board of Directors approved a second amendment to the 2005 Plan (the Plan Amendment) to (i) increase the aggregate number of shares of Common Stock authorized for issuance under the 2005 Plan by an additional 5,400,000 shares and (ii) increase the aggregate number of shares of Common Stock issuable pursuant to restricted stock, restricted stock units, performance units or stock grants by an additional 1,000,000 shares of Common Stock. The Company is requesting that the stockholders vote to approve the Plan Amendment to increase the number of shares reserved for issuance under the 2005 Plan by 5,400,000 shares and to increase the number of shares issuable pursuant to restricted stock, restricted stock units, performance units or stock grants by 1,000,000 shares. Currently, the 2005 Plan provides for the issuance of a maximum of 15,500,000 shares of common stock. Under the 2005 Plan, ISOs must be granted at exercise prices no less than fair market value on the date of grant, except for ISOs granted to employees who own more than 10% of the Company's combined voting power, for which the exercise prices must be no less than 110% of the market value at the date of grant. NSOs and SARs must be granted at no less than 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 Compensation Committee of the Board of Directors of the Company. All stock-based awards are exercisable upon vesting. As of March 31, 2007, there were 34,333,613 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 7,555,083 additional stock-based awards at March 31, 2007.

Under the 2005 ESPP, all full-time and certain part-time employees of the Company are eligible to receive options 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 under the 2005 ESPP, would own shares of 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

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

stock. As of March 31, 2007, 537,091 shares had been issued under the 2005 ESPP. During the first quarter of 2007, due to the ongoing voluntary stock option review, the Company suspended contributions to its 2005 ESPP. The contributions made to the 2005 ESPP and the related stock-based compensation in the first quarter of 2007 were not material.

Table of Contents**CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****March 31, 2007***Stock-Based Compensation*

The Company currently uses the Black-Scholes option pricing model to determine the fair value of its stock options and employee stock purchase plan shares. 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 and projected employee exercise behaviors, risk-free interest rate and expected dividends.

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

Income Statement Classifications	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cost of services revenues	\$ 410	\$ 467
Research and development	3,617	4,362
Sales, marketing and support	5,780	5,340
General and administrative	4,124	3,716
Total	\$ 13,931	\$ 13,885

As of March 31, 2007, there was \$60.5 million of total unrecognized compensation cost related to the stock options, non-vested stock and non-vested stock units. That cost is expected to be recognized over a weighted-average period of 1.90 years.

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. 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. 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 considering changes in vesting periods and contractual terms. The Company also analyzed its historical pattern of option exercises based on certain demographic characteristics and determined that there were no meaningful differences in option exercise activity based on the demographic characteristics. The Company does not intend to pay dividends on its common stock in the foreseeable future. Accordingly, the Company used a dividend yield of zero in its option pricing model. The weighted average fair value of stock options granted during the three months ended March 31, 2007 was \$9.80. The total intrinsic value of options exercised during the three months ended March 31, 2007 was \$13.3 million. The intrinsic value is calculated as the difference between the market value on the date of exercise and the exercise price of the shares.

The assumptions used to value option grants are as follows:

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

	Three Months Ended March 31, 2007	Three Months ended March 31, 2006
Expected volatility factor	0.33	0.30
Approximate risk free interest rate	4.69%	4.55%
Expected term (in years)	3.37	3.00
Expected dividend yield	0%	0%

Non-vested Stock

The Company has assumed non-vested stock held by certain employees of acquired companies. The non-vested stock assumed vests monthly based on service through October 2007 dependent upon the remaining vesting period of such non-vested stock at the time of the acquisition. As part of an overall retention program, the Company also granted shares of non-vested stock to certain employees from the 2005 Plan. Non-vested stock typically vests 50% on the first anniversary of the grant date and 50% on the second anniversary of the grant date. The Company has also awarded shares of non-vested stock pursuant to the 2005 Plan to a certain senior member of management that vest upon achieving certain employee retention goals. If the minimum retention goals are not achieved, no shares will be awarded and no compensation cost will be recognized and any previously recognized compensation cost will be reversed. As of March 31, 2007, the number of non-vested shares granted but unreleased was 38,970.

Table of Contents**CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****March 31, 2007***Non-vested Stock Units*

As part of the acquisitions that the Company completed in 2006, it assumed non-vested stock units, of which the majority vest based on service at a rate of 50% on the first anniversary of the grant date and 50% on the second anniversary of the grant date. In addition, the Company awards all vice presidents and senior executives 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 based on achievement of a specific corporate operating income 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 executive's award agreement. If the performance goal is met, the non-vested stock units will vest 33.33% on each anniversary subsequent to the date of the award. Each non-vested stock unit, upon vesting, will represent the right to receive one share of the Company's common stock. If the performance goals are not met, no compensation cost will be recognized and any previously recognized compensation cost will be reversed. The Company also awards all vice presidents and senior executives non-vested stock units that vest based on service from the 2005 Plan. These non-vested stock units vest 33.33% on each anniversary subsequent to the date of the award. 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 its non-employee directors. These units vest monthly in equal installments based on service and, upon vesting; each stock unit represents the right to receive one share of the Company's common stock. As of March 31, 2007, the number of non-vested units granted but unvested was 354,926.

3. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing income available to stockholders by the weighted-average number of common shares outstanding during each period. Diluted earnings per share are computed using the weighted average number of common and dilutive common share equivalents outstanding during the period. Dilutive common share equivalents consist of shares issuable upon the exercise of stock awards (calculated using the treasury stock method) during the period they were outstanding.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share information):

	Three Months ended March 31,	
	2007	2006
Numerator:		
Net income	\$ 37,633	\$ 41,463
Denominator:		
Denominator for basic earnings per share	179,282	178,169
Effect of dilutive employee stock awards	5,075	7,819
Denominator for diluted earnings per share	184,357	185,988
Basic earnings per share	\$ 0.21	\$ 0.23
Diluted earnings per share	\$ 0.20	\$ 0.22

Anti-dilutive weighted-average shares	21,207	21,853
---------------------------------------	--------	--------

4. ACQUISITIONS

2007 Acquisitions

During 2007, the Company acquired all of the issued and outstanding capital stock of Ardence (the Ardence Acquisition), a leading provider of solutions that allow information technology administrators to set up and configure PCs, servers, and Web servers in real time from a centrally managed source. The Ardence Acquisition strengthens the Company s application delivery capabilities with more robust streaming and provisioning technologies and increased security and reliability. The total consideration for the

Table of Contents**CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****March 31, 2007**

Ardence Acquisition was \$52.6 million comprised of cash paid of \$50.6 million and acquisition related costs of approximately \$2.0 million. As part of the Ardence Acquisition, the Company assumed approximately 0.1 million non-vested stock-based awards upon the closing of the transaction. Revenues from the acquired products are primarily included in the Company's Product License revenue. The sources of funds for consideration paid in the transaction consisted of available cash and investments. The Ardence Acquisition results of operations have been included in the Company's condensed consolidated results of operations beginning after the date of the completion of the transaction and are not significant in relation to the Company's condensed consolidated financial statements. Accordingly, pro forma financial disclosures have not been presented.

Under the purchase method of accounting, the purchase price for the Ardence Acquisition was allocated to the acquired company's net tangible and intangible assets based on their estimated fair values as of the date of the completion of the acquisition. The allocation of the total purchase price is summarized below (in thousands):

	Purchase Price	Asset
	Allocation	Life
Current assets	\$ 4,076	
Property and equipment	917	Various
In-process research and development	1,200	
Intangible assets	22,160	3-7 years
Goodwill	44,083	Indefinite
Assets acquired	72,436	
Current liabilities assumed	(9,318)	
Long-term liabilities assumed	(1,956)	
Deferred tax liabilities, non-current	(8,577)	
Net assets acquired, including direct transaction costs	\$ 52,585	

Current assets acquired in connection with the Ardence Acquisition consisted mainly of accounts receivable and current liabilities acquired consisted primarily of short-term debt and other accrued expenses. Long-term liabilities consist primarily of facilities related costs. The \$44.1 million of goodwill related to the Ardence Acquisition was assigned to the Company's Americas segment and is not deductible for tax purposes. See Note 7 for segment information.

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

	Weighted	
	Life	
Trade name	\$ 60	1.0 years
Customer relationships	4,800	6.4 years
Core and product technologies	17,300	5.3 years

Total

\$ 22,160

On August 14, 2007, the Company signed a definitive agreement to acquire XenSource, Inc. (XenSource) a privately held leader in enterprise-grade virtual infrastructure solutions. The acquisition will move the Company into adjacent server and desktop virtualization markets that will allow it to extend its leadership in the broader Application Delivery Infrastructure market by adding key enabling technologies that make the end-to-end computing environment more flexible, dynamic and responsive to business change. The closing of the acquisition is targeted for the fourth quarter of 2007 and is subject to XenSource stockholder and regulatory approvals. The acquisition has received clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Company plans to fund the acquisition through the use of its available cash and stock. In accordance with the terms of the agreement, the Company will issue approximately 4.2 million shares of its common stock to the stockholders of XenSource and they will receive approximately \$175.5 million in cash consideration. The number of shares, however, could increase to 6.5 million and the cash consideration could decrease to \$92.5 million if certain conditions in the agreement are satisfied prior to the closing of the acquisition. In addition, in connection with the acquisition, the Company will issue approximately 1.4 million unvested shares of the Company s common stock and it will assume approximately 3.4 million stock options each of which will be exercisable for the right to receive one share of the Company s common stock upon vesting. Transaction costs associated with the acquisition are currently estimated at \$3.7 million. In addition, the Company estimates that it will expense approximately \$8.0 to \$10.0 million in IPR&D upon the closing of the transaction.

Table of Contents

CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2007

The Sevin Rosen funds, a venture capital firm, is a stockholder in XenSource. Stephen Dow, a member of the Company's Board of Directors, is a general partner of the Sevin Rosen funds and does not directly hold any interest in XenSource. Although the Sevin Rosen funds are represented on the Board of Directors of XenSource, Mr. Dow is not a director of XenSource. The Company's acquisition of XenSource, if closed, will provide a return to all partners of the Sevin Rosen funds, including Mr. Dow. Subject to certain assumptions, the Company currently estimates that the potential allocation to Mr. Dow through the general partner entities of the Sevin Rosen funds related to the Merger is approximately \$1.9 million. Mr. Dow has been on the Company's Board of Directors since 1989 and currently owns 262,349 shares of its common stock. Mr. Dow did not attend the meeting at which the Company's Board approved the transaction and recused himself from the vote to approve the transaction. Consistent with the Company's policies and the charter of the Nominating and Corporate Governance Committee of the Company's Board of Directors, the acquisition of XenSource was reviewed and approved by the Nominating and Corporate Governance Committee. There are no material relationships among the Company and XenSource or any of their respective affiliates or any of the parties to the agreement to acquire XenSource and related agreements, other than in respect of such agreements themselves and as disclosed herein.

2006 Acquisitions

During 2006, the Company acquired all of the issued and outstanding capital stock of two privately held companies, Reflectent Software, Inc., a provider of solutions to monitor the real-time performance of client-server, web and desktop applications from an end-user perspective, and Orbital Data Corporation, a provider of solutions that optimize the delivery of applications over wide area networks (the 2006 Acquisitions). The 2006 Acquisitions strengthen the Company's Application Delivery Infrastructure products which are designed to offer comprehensive solutions across all dimensions of application delivery. The total consideration for the 2006 Acquisitions was \$68.0 million comprised of cash paid of \$65.1 million and other costs related primarily to estimated direct transaction costs of \$2.9 million. As part of the 2006 Acquisitions, the Company assumed approximately 0.4 million non-vested stock-based awards upon the closing of the transaction. Revenues from the acquired products are primarily included in the Company's Product License revenue and Technical Services revenue. The sources of funds for consideration paid in these transactions consisted of available cash and investments. In connection with the 2006 Acquisitions, the Company allocated \$44.4 million to goodwill, \$17.3 million to core and product technology and \$3.6 million to other intangible assets. The Company assigned all of the goodwill to its Americas segment.

Purchase Accounting for Acquisitions

The fair values used in determining the purchase price allocation for certain intangible assets for the Company's acquisitions were based on estimated discounted future cash flows, royalty rates and historical data, among other information. Purchased in-process research and development (IPR&D) of \$1.2 million was expensed in the first quarter of 2007 immediately upon the closing of the Ardence Acquisition in accordance with FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*, due to the fact that it pertained to technology that was not currently technologically feasible, meaning it had not reached the working model stage, did not contain all of the major functions planned for the product, was not ready for initial customer testing and had no alternative future use. The fair value assigned to in-process research and development was determined using the income approach, which includes estimating the revenue and expenses associated with a project's sales cycle and by estimating the amount of after-tax cash flows attributable to the projects. The future cash flows were discounted to present value utilizing an appropriate risk-adjusted rate of return, which was 22%. The rate of return included a factor that takes into account the uncertainty surrounding the successful development of the IPR&D.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The Company had \$675.8 million and \$631.7 million of goodwill as of March 31, 2007 and December 31, 2006, respectively. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company reviews its goodwill periodically for impairment. The Company completed its annual goodwill impairment test during the fourth quarter of 2006 and determined that the carrying amount of goodwill was not

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

impaired. Substantially all of the Company's goodwill at March 31, 2007 and December 31, 2006 was associated with the Americas and Citrix Online Division reportable segments. See Note 7 for segment information.

Table of Contents**CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****March 31, 2007***Intangible Assets*

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

	March 31, 2007		December 31, 2006	
	Gross Carrying	Accumulated	Gross Carrying	Accumulated
	Amount	Amortization	Amount	Amortization
Core and product technologies	\$ 161,724	\$ 61,274	\$ 137,071	\$ 55,301
Other	95,872	41,464	85,754	37,062
Total	\$ 257,596	\$ 102,738	\$ 222,825	\$ 92,363

Other intangible assets consist primarily of customer relationships, trade names, covenants not to compete and patents. Amortization of product related intangible assets includes amortization of core and product technologies and patents and is reported as a cost of revenues in the accompanying condensed consolidated statements of income. Amortization of other intangible assets includes amortization of customer relationships, trade names and covenants not to compete and is reported as an operating expense in the accompanying condensed consolidated statements of income.

Estimated future amortization expense is as follows (in thousands):

Year ending December 31,	
2007	\$ 41,424
2008	38,817
2009	32,331
2010	27,596
2011	16,917

6. LONG-TERM DEBT*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 the Company will pay on amounts outstanding on the Credit Facility and lowered the facility fee. In addition, the Amendment extended the term of the Credit Facility. The Credit Facility, as amended, allows 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, currently provides for a revolving line of credit that will expire on September 27, 2011 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 currently

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

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 United States and foreign subsidiaries, which guarantees are secured by a pledge of shares of certain foreign subsidiaries. As of March 31, 2007, there were no amounts outstanding under the Credit Facility, as amended.

Interest expense on the Company s borrowings was not material. 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 limit 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, subject to certain limits. Because of delays in filing the Company s Annual Report on Form 10-K for the year ended December 31, 2006, this Quarterly Report on Form 10-Q for the three months ended March 31, 2007 and its Quarterly Report of Form 10-Q for the three months ended June 30, 2007, the Company was at risk of breaching the affirmative covenants requiring certain financial statements to be provided to its lender within 90 days after the end of the Company s fiscal year and 45 days after the end of the Company s fiscal quarters. The Company received waivers related to these covenant breaches to extend the due date of such financial statements until September 30, 2007. The Company has notified its Lenders that the Company will provide such financial statements by the extension dates.

Term Loan

Effective on August 9, 2005, a subsidiary of the Company entered into a term loan facility (the Term Loan) with the Lenders. The Term Loan provided for an eighteen-month single-draw term loan facility in the aggregate amount of \$100.0 million. The Term Loan bore interest at an interest rate of LIBOR plus 0.5% and adjusted in the range of 0.5% to 1.25% above LIBOR based on the level of the subsidiary s total debt and its adjusted EBITDA, as described in the agreement. Borrowings under the Term Loan were guaranteed by the Company and certain of its United States and foreign subsidiaries, which guarantees were secured by a pledge of shares of certain foreign subsidiaries. In addition, the Company was required to pay a quarterly facility fee ranging from 0.125% to 0.25% based on the aggregate amount of the Term Loan and the level of the Company s total debt and its adjusted EBITDA. The Term Loan was paid in full in February 2006. The weighted average interest rate on the Term Loan for the period that it was outstanding in 2006 was 4.59%.

Table of Contents

CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2007

7. SEGMENT INFORMATION

The Company operates in a single industry segment consisting of the design, development and marketing of technology solutions that allow applications to be delivered, supported and shared on-demand. The Company's revenues are derived from sales of its Application Delivery Infrastructure products and related technical services in the Americas, EMEA and Asia-Pacific regions and from its online services sold by its Citrix Online Division. These three geographic regions and the Citrix Online Division constitute the Company's four reportable segments.

The Company does not engage in intercompany revenue transfers between segments. The Company's chief operating decision makers (CODMs) evaluate the Company's performance based primarily on profitability in the geographic locations in which the Company operates and separately evaluates the performance of its Citrix Online Division. Segment profit for each segment includes certain sales, marketing, general and administrative expenses directly attributable to the segment, including research and development costs in the Citrix Online Division and excludes certain expenses that are managed outside the reportable segments. Costs excluded from segment profit primarily consist of certain research and development costs associated with the Company's application delivery infrastructure products, stock-based compensation costs, amortization of core and product technology, amortization of other intangible assets, interest, corporate expenses and income taxes, as well as, charges for in-process research and development. Corporate expenses are comprised primarily of corporate marketing costs, stock-based compensation costs, operations and certain general and administrative expenses, which are separately managed. Accounting policies of the Company's segments are the same as its consolidated accounting policies.

Table of Contents**CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****March 31, 2007**

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

	Three Months Ended March 31,	
	2007	2006
Net revenues:		
Americas (1)	\$ 139,330	\$ 109,628
EMEA (2)	97,173	97,606
Asia-Pacific	24,374	21,126
Citrix Online Division	47,211	31,638
 Consolidated	 \$ 308,088	 \$ 259,998
 Segment profit:		
Americas (1)	\$ 69,563	\$ 51,857
EMEA (2)	62,811	65,626
Asia-Pacific	6,364	7,756
Citrix Online Division	14,459	8,156
Unallocated expenses (3):		
Amortization of intangible assets	(10,375)	(9,033)
Research and development	(41,582)	(31,895)
In-process research and development	(1,200)	
Net interest and other income	11,338	6,399
Other corporate expenses	(61,809)	(43,493)
 Consolidated income before income taxes	 \$ 49,569	 \$ 55,373

(1) The Americas segment is comprised of the United States, Canada and Latin America.

(2) Defined as Europe, the Middle East and Africa.

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

Identifiable assets classified by the Company's reportable segments are shown below.

	March 31,	December 31,
	2007	2006
	(In thousands)	
Identifiable assets:		
Americas	\$ 1,753,117	\$ 1,549,050
EMEA	169,009	207,012
Asia-Pacific	52,654	55,015
Citrix Online Division	212,600	213,396

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Total identifiable assets	\$ 2,187,380	\$ 2,024,473
---------------------------	---------------------	--------------

The increase in identifiable assets in the Americas segment is primarily due to an increase in short-term and long-term investments and, to a lesser extent, the goodwill and assets associated with the Company's Ardence Acquisition. The decrease in identifiable assets in the EMEA segment is primarily due to collection of accounts receivable in the first quarter of 2007 related to higher year end sales. See Note 3 for additional information regarding the Company's acquisitions.

Table of Contents

CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2007

In addition to evaluating the Company's profitability by geography, including the Company's Citrix Online Division, its CODMs also evaluate revenues by product groupings. Accordingly, the following table presents revenues for Product licenses, License updates and product related Technical services by product grouping for the Company's Application Virtualization products, Application Networking products and other products and Online services revenues for the Citrix Online Division's products (in thousands):

	Three Months Ended	
	March 31,	
	2007	2006
Net revenues:		
Application Virtualization revenues	\$ 224,130	\$ 206,680
Citrix Online Division revenues	47,211	31,638
Application Networking revenues	32,097	21,012
Other	4,650	668
Total net revenue	\$ 308,088	\$ 259,998

8. DERIVATIVE FINANCIAL INSTRUMENTS

As of March 31, 2007 and December 31, 2006, the Company had \$7.0 million and \$7.4 million of derivative assets, respectively, and \$3.4 million and \$2.8 million of derivative liabilities, respectively, representing the fair values of the Company's outstanding derivative instruments, which are recorded in other current assets, other assets, accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets. As of March 31, 2007, the Company's derivative assets and liabilities primarily resulted from cash flow hedges related to its operating expenses transacted in local currencies. The change in the derivative component in accumulated other comprehensive income includes unrealized gains or losses that arose from changes in market value of derivatives that were held during the period, and gains or losses that were previously unrealized, but have been recognized in current period net income due to termination or maturities of derivative contracts. This reclassification has no effect on total comprehensive income or stockholders' equity. The following table presents these components of accumulated other comprehensive income, net of tax for the Company's derivative instruments (in thousands):

	Three Months Ended	
	March 31,	
	2007	2006
Unrealized gains (losses) on derivative instruments	\$ 1,044	\$ (29)
Reclassification of realized (losses) gains	(1,883)	1,887
Net change in accumulated other comprehensive income due to derivative instruments	\$ (839)	\$ 1,858

Cash Flow Hedges. At March 31, 2007 and December 31, 2006, the Company had in place foreign currency forward sale contracts with a notional amount of \$95.0 million and \$56.0 million, respectively, and foreign currency forward purchase contracts with a notional amount of \$241.9 million and \$220.0 million, respectively. The fair value of these contracts at March 31, 2007 and December 31, 2006 were assets of \$7.0 million and \$7.4 million, respectively, and liabilities of \$3.4 million and \$2.8 million, respectively. A substantial portion of the Company's

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

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. Currencies hedged are Euros, British pounds sterling, Swiss francs, Australian dollars, Japanese yen, Hong Kong dollars, Canadian dollars, Danish krone and Swedish krona. There was no material ineffectiveness of the Company's foreign currency forward contracts for the three months ended March 31, 2007 or 2006.

Fair Value Hedges. From time to time, the Company uses interest rate swap instruments to hedge against the changes in fair value of certain of its available-for-sale securities due to changes in interest rates. The instruments swap the fixed rate interest on the underlying investments for a variable rate based on the LIBOR plus a specified margin. Changes in the fair value of the swap instruments are recorded in earnings along with related designated changes in the value of the underlying investments.

Table of Contents

CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2007

Derivatives not Designated as Hedges. From time to time, the Company utilizes certain derivative instruments that either do not qualify or are not designated for hedge accounting treatment under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations. Accordingly, changes in the fair value of these contracts, if any, are recorded in other expense, net, and such changes were not material in any of the periods presented.

9. COMPREHENSIVE INCOME

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

	Three Months Ended	
	2007	2006
Net income	\$ 37,633	\$ 41,463
Other comprehensive income:		
Change in unrealized gain (loss) on available-for-sale securities	69	(32)
Net change due to derivative instruments	(839)	1,858
Comprehensive income	\$ 36,863	\$ 43,289

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

	March 31,	December 31,
	2007	2006
Unrealized gain on available-for-sale securities	\$ 309	\$ 240
Unrealized gain on derivative instruments	3,101	3,940
Accumulated other comprehensive income	\$ 3,410	\$ 4,180

10. INCOME TAXES

On January 1, 2007, the Company adopted the provisions of FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*. As a result of the implementation of FIN No. 48, the Company recognized an approximate \$12.4 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. As of March 31, 2007, the Company's net unrecognized tax benefits totaled approximately \$37.3 million which included an increase of approximately \$0.4 million for the three months ended March 31, 2007. Included in the balance at March 31, 2007, are approximately \$0.3 million of tax positions which would not affect the annual effective tax rate and approximately \$0.1 million of accrued interest on tax positions.

The Company and one or more of its subsidiaries is subject to United States, (U.S.) federal income taxes in the U.S., 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.

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

income tax examinations by tax authorities for years prior to 2003. The Internal Revenue Service commenced an examination of the Company's U.S. federal income tax returns for 2004 and 2005 in the third quarter of 2006.

The Company is required to estimate its income taxes in each of the jurisdictions in which it operates as part of the process of preparing its condensed consolidated financial statements. At March 31, 2007, the Company has approximately \$102.1 million in current and long-term deferred tax assets. SFAS No. 109, *Accounting for Income Taxes*, 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, gains from investments, as well as tax planning strategies in assessing the need for a valuation allowance.

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 its 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.

Table of Contents

CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2007

The Company maintains certain operational and administrative processes in overseas subsidiaries and its foreign earnings are taxed at lower foreign tax rates. The Company does not expect to remit earnings from its foreign subsidiaries. The Company's effective tax rate was approximately 24.1% for the three months ended March 31, 2007 and 25.1% for the three months ended March 31, 2006.

11. 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 \$1.5 billion. The Company may use the approved dollar authority to repurchase stock at any time until the approved amounts are exhausted. The objective of the Company's stock repurchase program is to improve stockholders' returns. At March 31, 2007, approximately \$333.4 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock.

The Company is authorized to make open market purchases of its common stock using general corporate funds. Additionally, during 2006, the Company entered 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 and/or at the end of the period of the agreement or the receipt of either stock or cash at the maturity of the agreement, depending on market conditions.

During the three months ended March 31, 2007, the Company received approximately \$40.0 million, including a \$3.7 million premium related to the maturity of certain of its structured stock repurchase agreements and it made prepayments to financial institutions, net of premiums received, during the three months ended March 31, 2006, of approximately \$29.1 million under its structured stock repurchase arrangements. During the three months ended March 31, 2007, the Company did not make any open market purchases and during the three months ended March 31, 2006 expended approximately \$9.9 million on open market purchases. Under its structured stock repurchase agreements no shares were delivered during the three months ended March 31, 2007 and the Company took delivery of 1,073,850 shares with an average price of \$26.24 during the three months ended March 31, 2006. As of March 31, 2007, the Company has no prepaid notional amounts outstanding under structured stock repurchase agreements. During the three months ended March 31, 2006 the Company repurchased 322,500 shares of outstanding common stock with an average per share price of \$30.70 in its open market purchase transactions. In addition, a significant portion of the funds used to repurchase stock during the first quarter of 2006 was funded by proceeds from employee stock option exercises and the related tax benefits.

The Company did not enter into any structured stock repurchase agreements or repurchase any shares of outstanding common stock during its voluntary review of its historical stock option granting practices and related accounting.

12. 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.

Off-Balance Sheet Arrangement

During 2002, the Company became a party to a synthetic lease arrangement totaling approximately \$61.0 million for its corporate headquarters office space in Fort Lauderdale, Florida. The synthetic lease represents a form of off-balance sheet financing under which an unrelated third

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

party lessor funded 100% of the costs of acquiring the property and leases the asset to the Company. The synthetic lease qualifies as an operating lease for accounting purposes and as a financing lease for tax purposes. The Company does not include the property or the related lease debt as an asset or a liability on its condensed consolidated balance sheets. Consequently, payments made pursuant to the lease are recorded as operating expenses in the Company's condensed consolidated statements of income. The Company entered into the synthetic lease in order to lease its headquarters properties under more favorable terms than under its previous lease arrangements.

Table of Contents

CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2007

The initial term of the synthetic lease is seven years. Upon approval by the lessor, the Company can renew the lease twice for additional two-year periods. The lease payments vary based on LIBOR plus a margin. At any time during the lease term, the Company has the option to sublease the property and upon a thirty-day written notice, the Company has the option to purchase the property for an amount representing the original property cost and transaction fees of approximately \$61.0 million plus any lease breakage costs and outstanding amounts owed. Upon at least 180 days notice prior to the termination of the initial lease term, the Company has the option to remarket the property for sale to a third party. If the Company chooses not to purchase the property at the end of the lease term, it has guaranteed a residual value to the lessor of approximately \$51.9 million and possession of the buildings will be returned to the lessor. On a periodic basis, the Company evaluates the property for indicators of impairment. If an evaluation were to indicate that fair value of the buildings were to decline below \$51.9 million, the Company would be responsible for the difference under its residual value guarantee, which could have a material adverse effect on the Company's results of operations and financial condition.

The synthetic lease includes certain financial covenants including a requirement for the Company to maintain a pledged balance of approximately \$62.8 million in cash and/or investment securities as collateral. This amount is included in restricted cash equivalents and investments in the accompanying condensed consolidated balance sheets. The Company maintains the ability to manage the composition of the restricted investments within certain limits and to withdraw and use excess investment earnings from the restricted collateral for operating purposes. Additionally, the Company must maintain a minimum cash and investment balance of \$100.0 million, excluding the Company's collateralized investments, equity investments and outstanding debt, as of the end of each fiscal quarter. As of March 31, 2007, the Company had approximately \$744.2 million in cash and investments in excess of the required level. The synthetic lease also contains a number of affirmative and negative covenants. Because of delays in filing the Company's Annual Report on Form 10-K for the year ended December 31, 2006, this Quarterly Report on Form 10-Q for the three months ended March 31, 2007 and its Quarterly Report on Form 10-Q for the three months ended June 30, 2007, the Company was at risk of breaching the affirmative covenant requiring its Annual Report on Form 10-K to be provided to the lessor within 100 days after the end of its fiscal year and its Quarterly Reports on Form 10-Q within 55 days after the end of its fiscal quarters. The Company received waivers related to these covenant breaches to extend the due date of its Annual Report on Form 10-K for the year ended December 31, 2006, this Quarterly Report on Form 10-Q for the three months ended March 31, 2007 and its Quarterly Report on Form 10-Q for the three months ended June 30, 2007 until October 31, 2007. The Company has notified its lessor that it will provide such reports by the extension date.

Office Leases

During 2002 and 2001, the Company took actions to consolidate certain of its offices, including the exit of certain leased office space and the abandonment of certain leasehold improvements. Lease obligations related to the remaining existing operating lease continues to 2018 with a total remaining obligation at March 31, 2007 of approximately \$8.8 million, of which \$1.7 million was accrued as of March 31, 2007, and is reflected in accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets. In calculating this accrual, 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 and if actual circumstances prove to be materially worse than management has estimated, the total charges for these vacant facilities could be significantly higher.

Legal Matters

In 2006, the Company was sued in the United States District Court for the Northern District of Ohio and in the United States District Court for the Southern District of Florida, in each case for alleged infringement of U.S. patents by Citrix Online Division's GoToMyPC service. The complaints name Citrix Systems, Inc. and Citrix Online LLC, a wholly-owned subsidiary of Citrix Systems, Inc., as defendants and seek unspecified damages and other relief. In response, the Company filed answers denying that GoToMyPC infringes these patents and alleging, among other things, that the asserted claims of these patents are invalid. In January 2007, a similar suit naming Citrix Systems, Inc. was filed in the United States District Court of the Eastern District of Texas, and the Company has filed a response denying infringement and alleging that the asserted patent is invalid. On November 2, 2006, the court in the Northern District of Ohio held a hearing for the purpose of construing

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

disputed terms of the claims of the patent-in-suit, and on March 13, 2007, the court issued a claim construction ruling. On March 21, 2007, the Company moved for leave to amend its answer in that case to assert an affirmative defense and counterclaim of inequitable conduct, which is a complete defense. On August 28, 2007, the court granted the Company's motion. On April 13 and May 2, 2007, the court in the Southern District of Florida held a hearing for the purpose of construing disputed terms of the claims of the patent-in-suit. The court issued its claim construction ruling in that case June 5, 2007. In addition, the United States Patent and Trademark Office has decided to reexamine the patent at issue in the Southern District of Florida case. The Company believes that it has meritorious defenses to the allegations made in each of the complaints and intends to vigorously defend these lawsuits; however, it is unable to currently determine the ultimate outcome of these matters or the potential exposure to loss, if any.

Table of Contents

CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2007

On March 8, 2007, a purported stockholder derivative action entitled Sheet Metal Workers Local 28 Pension Fund v. Roger W. Roberts et al. (C.A. No. 07-60316), was filed in the US District Court for the Southern District of Florida against certain of the Company's current and former directors and officers, and against the Company as a nominal defendant. The complaint asserts, among other things, that certain stock option grants made by the Company were dated and accounted for inappropriately. The complaint seeks the recovery of monetary damages and other relief for damage allegedly caused to the Company.

The Company also received a demand letter dated March 15, 2007 from a purported stockholder with respect to certain stock option grants made to its current and former directors and officers during the years 1996 through 2003. That demand letter asserts, among other things, that certain stock option grants made by the Company were dated and accounted for inappropriately. The demand letter seeks, among other things, the commencement by the Company's Board of Directors of an action against its directors and officers from 1996 forward for alleged breaches of fiduciary duties in connection with the granting of the options.

In July 2007, two additional purported stockholder derivative actions entitled Ekas v. Citrix, et al. (Case No. 07-16114-11) and Crouse v. Citrix, et al. (Case No. 07-16249-03) were filed in the Circuit Court for Broward County, Florida state court against certain of the Company's current and former directors and officers, and against the Company as a nominal defendant. On August 14, 2007, notices of removal were filed in both cases removing the cases to the US District Court for the Southern District of Florida, where they are currently pending. The complaints in these actions assert, among other things, that certain stock option grants made by the Company were dated and accounted for inappropriately. As with the Sheet Metal Workers' complaint, the complaints in the Ekas and Crouse actions seek the recovery of monetary damages and other relief for damages allegedly caused to the Company. The Company has moved to have all three cases consolidated.

Neither the purported stockholder derivative actions nor the demand letter described above seeks to recover amounts from the Company.

In addition, the Company is a defendant in various matters of litigation generally arising out of the normal course of business. Although it is difficult to predict the ultimate outcome of these cases, management believes, based on discussions with counsel, that any ultimate outcome would not materially affect the Company's financial position, results of operations or cash flows.

Guarantees

FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, 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 FIN No 45, 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.

Contingent Liabilities Related to Internal Revenue Code Section 409A

Because virtually all holders of stock options granted by the Company were not involved in or aware of the incorrect pricing of certain options, the Company has taken and intends to take further actions to address certain adverse tax consequences that may be incurred by the holders of such incorrectly priced options. The primary adverse tax consequence is that the re-measured options vesting after December 31, 2004 subject the option holder to a penalty tax under Section 409A of the IRC (and, as applicable, similar excise taxes under state laws). As a result during the first quarter of 2007, the Company has recorded \$2.5 million, net of income tax, in liabilities related to the anticipated payment by the

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Company of payroll and excise taxes on behalf of the Company's employees for options that were exercised during open tax years under the related statutes. The Company expects to incur approximately \$0.9 million, net of income tax, in additional charges to correct future adverse tax consequences under IRC Section 409A related to future employee option exercises of incorrectly priced options.

Table of Contents

CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2007

13. RECENT ACCOUNTING PRONOUNCEMENT

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective for the Company beginning in the first quarter of fiscal year 2008, although earlier adoption is permitted. The Company is currently evaluating the impact that SFAS No. 159 will have on its condensed consolidated financial statements, if any.

14. SUBSEQUENT EVENT

Subsequent to December 31, 2006, the Company failed to file its Annual Report on Form 10-K for the year ended December 31, 2006 with the SEC on a timely basis. As a result, on March 15, 2007, the Nasdaq Listing Qualifications Department notified the Company that it was not in compliance with the requirements of Nasdaq Marketplace Rule 4310(c)(14) and began delisting proceedings. In addition, in 2007, the Company failed to file its Quarterly Reports on Form 10-Q for the three months ended March 31, 2007 and June 30, 2007 with the SEC on a timely basis. After each occurrence, the Nasdaq Listing Qualifications Department notified the Company that it was not in compliance with Nasdaq's listing requirements. In accordance with Nasdaq rules, the Company requested a hearing with the Nasdaq Listing Qualifications Panel and later appealed the panel's determination. On August 30, 2007, the Company received notification from Nasdaq that the Company's common stock will continue to be listed on the Nasdaq Global Select Market pending a review by the Nasdaq Listing and Hearing Review Council of the decision of the Nasdaq Listing Qualifications Panel. With the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, this Quarterly Report on Form 10-Q for the three months ended March 31, 2007 and its Quarterly Report on Form 10-Q for the three months ended and June 30, 2007, the Company believes that it has returned to full compliance with SEC reporting requirements and Nasdaq's listing requirements.

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 product and appliance sales, product development and offerings, Application Networking, Subscription Advantage, Presentation Server, NetScaler, WanScaler, Advanced Solutions, Management Systems, Edgesight, Application Virtualization, Access Essentials and Access Gateway products, historical stock option granting practices, cash and non-cash charges, contingent liabilities under Internal Revenue Code Section 409A, product and price competition, Citrix Online Division, competition and strategy and our market position, market acceptance of operating systems on which our products rely, customer diversification, product price and inventory, deferred revenues, economic and market conditions, potential government regulation, seasonal factors, international operations and expansion, revenue recognition, profits, growth of revenues, composition of revenues, cost of revenues, operating expenses, sales, marketing and support expenses, general and administrative expenses, research and development expenses, compensation costs, our ability to attract and retain qualified personnel, valuations of investments and derivative instruments, technology relationships, reinvestment or repatriation of foreign earnings, gross margins, impairment charges, anticipated operating and capital expenditure requirements, cash inflows, maintenance of accounts receivable, off balance sheet arrangements, our Credit Facility (as amended), in-process research and development, advertising campaigns, tax rates and deductions, valuation and composition of stock-based awards, SFAS No. 123R, leasing and subleasing activities, acquisitions, and the closing of the XenSource acquisition, management and financial systems and controls, stock repurchases, investment transactions, liquidity, litigation matters, intellectual property matters, distribution channels, internal sales and service coverage, stock price, payment of dividends, Advisor Rewards Program, third party licenses, closing of the acquisition of XenSource and potential debt or equity financings constitute forward-looking statements and are made under the safe harbor provisions of the Section 27 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 significantly from those stated in any forward-looking statements. The factors described in Part II Item 1A, Risk Factors, in this 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.

Overview

We design, develop and market technology solutions that deliver applications on-demand with virtually the best performance, security and total cost of ownership, or TCO. We market and license our products through multiple channels such as value-added resellers, channel distributors, system integrators, independent software vendors, our websites and original equipment manufacturers.

Stock Option Review

On November 30, 2006, after management conducted a preliminary, limited scope review of certain of our stock option granting practices, our Audit Committee commenced a voluntary, independent investigation of our historical stock option granting practices and related accounting during the period from January 1996 through December 2006. None of the members of the Audit Committee has ever served on the Compensation Committee of the Board of Directors. This voluntary investigation was not in response to any governmental investigation, stockholder lawsuit, whistleblower complaint or inquiries from media organizations. The investigation was conducted with the assistance of independent outside legal counsel and outside forensic accounting consultants, and covered option grants made to all employees during the period from January 1996 through December 2006. This investigation continued throughout the first quarter of 2007 and was completed on June 13, 2007. Management further evaluated all grants (consisting of two employee new hire grants) in December 1995, which was the month we completed our initial public offering, and all grants to non-employee directors. The investigation and related review consisted of approximately 191 grant dates (representing over 27,000 individual option grants and approximately 108.7 million stock options). Our Annual Report on Form 10-K for the year ended December 31, 2006, which was filed on September 7, 2007, contains a description of the Audit Committee's investigation, management's related review, the conclusions of the Audit Committee and management and the restatement of our consolidated balance sheet as of December 31, 2005 and the related consolidated statements of income, stockholders' equity and comprehensive income and cash flows for the years ended December 31, 2005 and 2004, and each of the quarters in the 2006 and 2005 fiscal years, to reflect additional stock-based compensation expense and related income tax effects for stock option awards granted since December 1995.

As a result of the Audit Committee's investigation and management's related review of our historical stock option granting practices and the associated restatements, we could not file our periodic reports with the SEC on a timely basis and, as a result, faced the possibility that our stock would be delisted from the Nasdaq Global Select Market. With the filing of our Annual Report on Form 10-K for the year ended December 31, 2006 and this Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 and our Quarterly Report on Form 10-Q for the quarter

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

ended June 30, 2007, we believe we have returned to full compliance with SEC reporting requirements and Nasdaq listing requirements and expect that the Nasdaq delisting matter will be closed. Since the beginning of our stock option investigation on November 30, 2006 through March 31, 2007, we have incurred approximately \$6.6 million in professional fees in connection with this stock option investigation and related restatements. Of the \$6.6 million of expense incurred to date, we incurred approximately \$5.7 million during the three months ended March 31, 2007.

Table of Contents**Acquisitions***2007 Acquisitions*

During 2007, we acquired all of the issued and outstanding capital stock of Ardence Delaware, Inc., or the Ardence Acquisition, a leading provider of solutions that allow information technology administrators to set up and configure PCs, servers, and Web servers in real time from a centrally managed source. The Ardence Acquisition strengthens our application delivery capabilities with more robust streaming and provisioning technologies and increased security and reliability. The total consideration for the Ardence Acquisition was \$52.6 million comprised of cash paid of \$50.6 million and acquisition related costs of approximately \$2.0 million. As part of the Ardence Acquisition, we assumed approximately 0.1 million non-vested stock-based awards upon the closing of the transaction. Revenues from the acquired products are primarily included in our Product License revenue. The sources of funds for consideration paid in the transaction consisted of available cash and investments. The Ardence Acquisition results of operations have been included in our condensed consolidated results of operations beginning after the date of the completion of the transaction.

Under the purchase method of accounting, the purchase price for the Ardence Acquisition was allocated to the acquired company's net tangible and intangible assets based on their estimated fair values as of the date of the completion of the acquisition. The allocation of the total purchase price is summarized below (in thousands):

	Purchase Price	Asset
	Allocation	Life
Current assets	\$ 4,076	
Property and equipment	917	Various
In-process research and development	1,200	
Intangible assets	22,160	3-7 years
Goodwill	44,083	Indefinite
Assets acquired	72,436	
Current liabilities assumed	(9,318)	
Long-term liabilities assumed	(1,956)	
Deferred tax liabilities, non-current	(8,577)	
Net assets acquired, including direct transaction costs	\$ 52,585	

Current assets acquired in connection with the Ardence Acquisition consisted mainly of accounts receivable and current liabilities acquired consisted primarily of short-term debt and other accrued expenses. Long-term liabilities consist primarily of facilities related costs. The \$44.1 million of goodwill related to the Ardence Acquisition was assigned to our Americas segment and is not deductible for tax purposes.

Intangible assets acquired in the Ardence Acquisition are comprised of core and product technologies, customer relationships and trade name. The valuation of the acquired technologies was based on the estimated discounted future cash flows associated with the acquired companies existing products. The value of customer relationships was determined based on the acquired companies estimated future discounted cash flows of the relationships in place after considering historical and expected buying patterns of customers, expected cash flows from current customers, the duration of support contracts and the application of charges of other contributory assets. The valuation of the trade name for the Ardence Acquisition was determined based on assigning a royalty rate to the revenue stream that was expected from the products using the trade names. The pre-tax royalty rate was applied to the product revenue and discounted to a present value. The goodwill recorded in relation to the Ardence Acquisition was assigned to the Americas segment and is not deductible for tax purposes.

On August 14, 2007, we signed a definitive agreement to acquire XenSource, Inc., or XenSource, a privately held leader in enterprise-grade virtual infrastructure solutions. The acquisition will move us into adjacent server and desktop virtualization markets that will allow us to extend our leadership in the broader Application Delivery Infrastructure market by adding key enabling technologies that make the end-to-end computing environment more flexible, dynamic and responsive to business change. The closing of the acquisition is targeted for the fourth quarter of 2007 and is subject to XenSource stockholder and regulatory approvals. The acquisition has received clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. We plan to fund the acquisition through the use of our available cash and stock. In accordance with the terms of the agreement, we will issue approximately 4.2 million shares of our common stock to the stockholders of

XenSource and they will receive

Table of Contents

approximately \$175.5 million in cash consideration. The number of shares, however, could increase to 6.5 million and the cash consideration could decrease to \$92.5 million if certain conditions in the agreement are satisfied prior to the closing of the acquisition. In addition, in connection with the acquisition we will issue approximately 1.4 million unvested shares of our common stock and we will assume approximately 3.4 million stock options each of which will be exercisable for the right to receive one share of our common stock upon vesting. Transaction costs associated with the acquisition are currently estimated at \$3.7 million. In addition, we estimate that we will expense approximately \$8.0 to \$10.0 million in IPR&D upon the closing of the transaction.

The Sevin Rosen funds, a venture capital firm, is a stockholder in XenSource. Stephen Dow, a member of our Board of Directors, is a general partner of the Sevin Rosen funds and does not directly hold any interest in XenSource. Although the Sevin Rosen funds are represented on the Board of Directors of XenSource, Mr. Dow is not a director of XenSource. Our acquisition of XenSource, if closed will provide a return to all the partners of the Sevin Rosen funds, including Mr. Dow. Subject to certain assumptions, we currently estimate that the potential allocation to Mr. Dow through the general partner entities of the Sevin Rosen funds related to the acquisition of XenSource is approximately \$1.9 million. Mr. Dow has been on our Board of Directors since 1989 and currently owns 262,349 shares of our common stock. Mr. Dow did not attend the meeting at which our Board approved the transaction and recused himself from the vote to approve the transaction. Consistent with our policies and the charter of the Nominating and Corporate Governance Committee of our Board of Directors, the acquisition of XenSource was reviewed and approved by the Nominating and Corporate Governance Committee. There are no material relationships among us and XenSource or any of their respective affiliates or any of the parties to the agreement to acquire XenSource and related agreements, other than in respect of such agreements themselves and as disclosed herein.

2006 Acquisitions

During 2006, we acquired all of the issued and outstanding capital stock of two privately held companies, Reflectent Software, Inc., a provider of solutions to monitor the real-time performance of client-server, web and desktop applications from an end-user perspective, and Orbital Data Corporation, a provider of solutions that optimize the delivery of applications over wide area networks, collectively, the 2006 Acquisitions. The 2006 Acquisitions strengthen our Application Delivery Infrastructure products, which are designed to offer comprehensive solutions across all dimensions of application delivery. The total consideration for the 2006 Acquisitions was \$68.0 million comprised of cash paid of \$65.1 million and other costs related primarily to estimated direct transaction costs of \$2.9 million. As part of the 2006 Acquisitions, we assumed approximately 0.4 million non-vested stock-based awards upon the closing of the transaction. Revenues from the acquired products are primarily included in our Product License revenue and Technical Services revenue. The sources of funds for consideration paid in these transactions consisted of available cash and investments. In connection with the 2006 Acquisitions, we allocated \$44.4 million to goodwill, \$17.3 million to core and product technology and \$3.6 million to other intangible assets. We assigned all of the goodwill to our Americas segment.

Purchase Accounting for Acquisitions

The fair values used in determining the purchase price allocation for certain intangible assets for our acquisitions were based on estimated discounted future cash flows, royalty rates and historical data, among other information. Purchased in-process research and development, or IPR&D, of \$1.2 million was expensed in the first quarter of 2007 immediately upon the closing of the Ardence Acquisition in accordance with FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*, due to the fact that it pertained to technology that was not currently technologically feasible, meaning it had not reached the working model stage, did not contain all of the major functions planned for the product, was not ready for initial customer testing and had no alternative future use. The fair value assigned to in-process research and development was determined using the income approach, which includes estimating the revenue and expenses associated with a project's sales cycle and by estimating the amount of after-tax cash flows attributable to the projects. The future cash flows were discounted to present value utilizing an appropriate risk-adjusted rate of return, which was 22%. The rate of return included a factor that takes into account the uncertainty surrounding the successful development of the IPR&D.

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.

Table of Contents

We believe that the accounting policies described below are critical to understanding our business, results of operations and financial condition because they involve more significant judgments and estimates used in the preparation of our condensed consolidated financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our condensed consolidated financial statements. We have discussed the development, selection and application of our critical accounting policies with the audit committee of our board of directors and our independent auditors, and our audit committee has reviewed our disclosure relating to our critical accounting policies and estimates in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Other significant accounting policies, primarily those with lower levels of uncertainty than those discussed below, are also important to understanding our condensed consolidated financial statements. The notes to our condensed consolidated financial statements contain additional information related to our accounting policies and should be read in conjunction with this discussion.

The notes to our condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2006, the notes to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q and the factors and events described in Part I, Item 2.,

Management's Discussion and Analysis of Financial Condition and Results of Operations, and in Part II, Item 1A., Risk Factors, of this Quarterly Report on Form 10Q contain additional information related to our accounting policies and should be read in conjunction with the following discussion and analysis relating to the individual financial statement captions and our overall financial performance, operations and financial position.

Revenue Recognition

The accounting related to revenue recognition in the software industry is complex and affected by interpretations of the rules and an understanding of industry practices, both of which are subject to change. As a result, revenue recognition accounting rules require us to make significant judgments. In addition, our judgment is required in assessing the probability of collection, which is generally based on evaluation of customer-specific information, historical collection experience and economic market conditions. If market conditions decline, or if the financial condition of our distributors or customers deteriorate, we may be unable to determine that collectibility is probable, and we could be required to defer the recognition of revenue until we receive customer payments.

We license most of our products bundled with a one year contract for license updates that provide the end-user with free enhancements and upgrades to the licensed product on a when and if available basis. Customers may also elect to purchase subscriptions for license updates, when not bundled with the initial product release or purchase, technical support, product training or consulting services. We allocate revenue to license updates 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 have been met. The balance of the revenue, 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 we cannot objectively determine the fair value of each undelivered element based on the VSOE fair value, we defer revenue recognition until all elements are delivered, all services have been performed, or until fair value can be objectively determined. We must apply judgment in determining all elements of the arrangement and in determining the VSOE of fair value for each element, considering the price charged for each product or applicable renewal rates for license updates.

In the normal course of business, we do not permit product returns, but we do provide most of our distributors with stock balancing and price protection rights. Stock balancing rights permit distributors to return products to us up to the forty-fifth day of the fiscal quarter, subject to ordering an equal dollar amount of our other products prior to the last day of the same fiscal quarter. Price protection rights require that we grant retroactive price adjustments for inventories of our products held by distributors or resellers if we lower our prices for such products. We establish provisions for estimated returns for stock balancing and price protection rights, 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, estimated distributor inventory levels by product, the impact of any new product releases and projected economic conditions. Actual product returns for stock balancing and price protection provisions incurred are, however, dependent upon future events, including the amount of stock balancing activity by our distributors and the level of distributor inventories at the time of any price adjustments. We continually monitor the factors that influence the pricing of our products and distributor inventory levels and make adjustments to

Table of Contents

these provisions when we believe actual returns and other allowances could differ from established reserves. Our ability to recognize revenue upon shipment to our distributors is predicated on our ability to reliably estimate future stock balancing returns. If actual experience or changes in market condition impairs our ability to estimate returns, we would be required to defer the recognition of revenue until the delivery of the product to the end-user. Allowances for estimated product returns amounted to approximately \$1.1 million at March 31, 2007 and \$1.7 million at December 31, 2006. We have not reduced and have no current plans to reduce our prices for inventory currently held by distributors or resellers. Accordingly, there were no reserves required for price protection at March 31, 2007 and December 31, 2006. We also record reductions to revenue for customer programs and incentive offerings including volume-based incentives, at the time the sale is recorded. If market conditions were to decline, we could take actions to increase our customer incentive offerings, which could result in an incremental reduction to our revenue at the time the incentive is offered.

Stock-Based Compensation

We adopted the provisions of Statement of Financial Accounting Standards, or SFAS, No. 123R, *Share-Based Payment* on January 1, 2006, the effective date for such adoption. Prior to January 1, 2006, we accounted for our stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*. We did not recognize compensation cost related to stock options granted to our employees and non-employee directors that had an exercise price equal to or above the market value of the underlying common stock on the date of grant in our consolidated statement of income prior to January 1, 2006. We elected to adopt SFAS No. 123R using the modified-prospective method, under which compensation cost, based on the requirements of SFAS No. 123R, is recognized beginning with the effective date for all stock-based awards granted to employees after the effective date and prior to the effective date that remain unvested as of the effective date. In addition, under the modified-prospective method prior periods are not revised for comparative purposes. Under the fair value recognition provisions of SFAS No. 123R, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period.

We currently use the Black-Scholes option pricing model to determine the fair value of stock options and employee stock purchase plan shares. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, the expected term of the award, the risk-free interest rate and any expected dividends.

For purposes of determining the expected volatility factor, we considered the implied volatility in two-year market-traded options on our common stock based on third party volatility quotes in accordance with the provisions of Staff Accounting Bulletin, or SAB, No. 107. Our decision to use implied volatility was based upon the availability of actively traded options on our common stock and our assessment that implied volatility is more representative of future stock price trends than historical volatility. The expected term of our options is based on historical and projected employee exercise patterns. We also analyzed our historical pattern of option exercises based on certain demographic characteristics and we determined that there were no meaningful differences in option exercise activity based on the demographic characteristic. The approximate risk free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with remaining terms equivalent to the expected term on our options. We do not intend to pay dividends on our common stock in the foreseeable future and, accordingly, we used a dividend yield of zero in the option pricing model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards, including those with graded vesting schedules, are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods. Beginning in 2006, we began issuing non-vested stock units and non-vested stock with performance goals to certain senior members of management. The number of non-vested stock units or non-vested stock underlying each award may be determined based on a range of attainment within defined performance goals. We are required to estimate the attainment that will be achieved related to the defined performance goals and number of non-vested stock units or non-vested stock that will ultimately be awarded in order to recognize compensation expense over the vesting period. If our initial estimates of performance goal attainment change, the related expense may fluctuate from quarter to quarter based on those estimates and if the performance goals are not met, no compensation cost will be recognized and any previously recognized compensation cost will be reversed. As of March 31, 2007, there was \$60.5 million of total unrecognized compensation cost related to options, non-vested stock and non-vested stock units. That cost is expected to be recognized over a weighted-average period of 1.90 years.

Table of Contents

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the stock-based compensation expense we recognize in future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and earnings per share. This may result in a lack of consistency in future periods and materially affect the fair value estimate of stock-based payments. It may also result in a lack of comparability with other companies that use different models, methods and assumptions. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. These characteristics are not present in our option grants and employee stock purchase plan shares. Existing valuation models, including the Black-Scholes and lattice binomial models, may not provide reliable measures of the fair values of our stock-based compensation. Consequently, there is a risk that our estimates of the fair values of our stock-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination or forfeiture of those stock-based payments in the future. Certain stock-based payments, such as employee stock options, may expire with little or no intrinsic value compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, the value realized from these instruments may be significantly higher than the fair values originally estimated on the grant date and reported in our financial statements. There is currently no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values. The guidance in SFAS No. 123R and SAB No. 107 is relatively new from an application perspective and the application of these principles may be subject to further interpretation and refinement over time. See Note 2 to our condensed consolidated financial statements for further information regarding our adoption of SFAS No. 123R

Results of Operations

Our operations consist of the design, development, marketing and support of our application delivery infrastructure products and services that enable on-demand access to information and applications for our customers, which include individual consumers and professionals, small businesses and enterprises. 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 our business. Historically, our fourth quarter revenue for any year is typically higher than the first quarter of the subsequent year.

Our results of operations are 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 one year in advance of anticipated foreign currency expenses. As a result of this practice when the dollar is weak, foreign currency denominated expenses will be higher. These higher expenses will be partially offset by the gain in our hedging contracts. If the dollar is strong, foreign currency denominated expenses will be lower. These lower 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. Due to the generally weaker dollar in the first quarter of 2007 our operating expenses benefited from gains in our hedging programs as compared to the first quarter of 2006.

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		Three Months Ended
	March 31,		March 31, 2007
	2007	2006	vs. March 31, 2006
Revenues:			
Product licenses	\$ 122,067	\$ 114,185	6.9%
License updates	112,808	93,871	20.2
Online services	47,211	31,638	49.2
Technical services	26,002	20,304	28.1
 Total net revenues	 308,088	 259,998	 18.5
Cost of revenues:			
Cost of license revenues	8,295	6,631	25.1
Cost of services revenues	14,891	10,497	41.9
Amortization of product related intangible assets	6,228	5,001	24.5

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Total cost of revenues	29,414	22,129	32.9
------------------------	---------------	--------	------

Table of Contents

	Three Months Ended		Three Months Ended
	March 31,		March 31, 2007
	2007	2006	vs. March 31, 2006
Gross margin	278,674	237,869	17.2
Operating expenses:			
Research and development	46,544	34,685	34.2
Sales, marketing and support	130,649	110,027	18.7
General and administrative	57,903	40,151	44.2
Amortization of other intangible assets	4,147	4,032	2.9
In-process research and development	1,200		100.0
Total operating expenses	240,443	188,895	27.3
Income from operations	38,231	48,974	(21.9)
Interest income	11,375	7,602	49.6
Interest expense	(224)	(500)	(55.2)
Other income (expense), net	187	(703)	(126.6)
Income before income taxes	49,569	55,373	(10.5)
Income taxes	11,936	13,910	(14.2)
Net income	\$ 37,633	\$ 41,463	(9.2)%

Revenues

Net revenues include the following categories: Product Licenses, License Updates, Online Services and Technical Services. Product Licenses primarily represent fees related to the licensing of our Application Virtualization products, which primarily consists of Presentation Server, Access Essentials and Password Manager; our Application Networking products, which are comprised of NetScaler products, SSL Access Gateway products, Application Firewall products and WANScaler products; and our other products, which include our EdgeSight, Application Gateway and, in 2007, our Ardence products. In addition, we offer incentive programs to our channel distributors and value-added resellers to stimulate demand for our products. Revenues associated with these programs are partially offset by these incentives to our channel distributors and value-added resellers. 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 software upgrades, enhancements and maintenance releases when and if they become available during the term of the subscription. We anticipate that Subscription Advantage will continue to be of strategic importance to our business throughout 2007 because it fosters long-term customer relationships and gives us improved visibility and predictability due to the recurring nature of this revenue stream. Online Services revenues consist primarily of fees related to online service agreements and are recognized ratably over the contract term. 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.

	Three Months Ended		2007
	March 31,		Compared to 2006
	2007	2006	
	(In thousands)		
Product licenses	\$ 122,067	\$ 114,185	\$ 7,882
License updates	112,808	93,871	18,937
Online Services	47,211	31,638	15,573
Technical Services	26,002	20,304	5,698

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Total net revenues	\$ 308,088	\$ 259,998	\$ 48,090
--------------------	------------	------------	-----------

Product License revenue increased for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 primarily due to increases in sales of our Application Networking products and to a lesser extent, sales of our Edgesight and Ardence products. License Updates revenue increased for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 due primarily to a larger base of subscribers and increasing renewals related to our Subscription Advantage program. Online Services revenue increased for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 primarily due to increased customer adoptions of existing and new products and increased renewals of all of our Citrix Online Division's products. Technical Services revenue increased for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 primarily due to increases in sales of services related to our Application Networking products and, to a lesser extent, increases in sales of support services related to sales of our Application Virtualization products. During 2007,

Table of Contents

we expect Product License revenue to increase overall primarily due to expected growth from sales of our Application Networking products, increased sales of our Application Virtualization products and our newer products primarily from our 2007 and 2006 Acquisitions. We also anticipate that License Updates revenue will increase for the remainder of 2007 as we continue to grow our installed customer base. Online Services revenues are also expected to increase for the remainder of 2007.

Deferred revenues increased approximately \$19.9 million as compared to December 31, 2006. This increase was due primarily to increased renewals of our Subscription Advantage program and to a lesser extent an increase in sales of our Citrix Online Division's products. We expect deferred revenue to continue to increase for the remainder of 2007.

We do not believe that backlog, as of any particular date, is a reliable indicator of future performance. While it is generally our practice to promptly ship our products upon receipt of properly finalized purchase orders, we sometimes have product license orders that have not shipped or have otherwise not met all the required criteria for revenue recognition. Although the amount of such product license orders may vary, the amount, if any, of such product license orders at the end of a particular period has not been material to total revenue at the end of the same period.

International Revenues

International revenues (sales outside of the United States) accounted for approximately 43.7% of net revenues for the three months ended March 31, 2007 and 50.5% the three months ended March 31, 2006. The decrease in our international revenues for the periods presented is primarily due to increased sales of our Online Services products and our newer products in the United States. For detailed information on international revenues, please refer to Note 7 to our condensed consolidated financial statements.

Segment Revenues

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

	Three Months Ended		Increase (decrease)
	March 31,		for the
			Three Months Ended
			March 31, 2007
	2007	2006	vs. March 31, 2006
Americas (1)	\$ 139,330	\$ 109,628	27.1%
EMEA (2)	97,173	97,606	(0.4)
Asia-Pacific	24,374	21,126	15.4
Citrix Online Division	47,211	31,638	49.2
Net revenues	\$ 308,088	\$ 259,998	18.5%

(1) Our Americas segment is comprised of the United States, Canada and Latin America.

(2) Defined as Europe, Middle East and Africa.

With respect to our segment revenues, the increase in net revenues for the comparative periods presented was due primarily to the factors previously discussed across the Americas and Asia-Pacific segments and our Citrix Online Division. For additional information on our segment revenues, please refer to Note 7 of our condensed consolidated financial statements.

Cost of Revenues

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

	Three Months Ended		Three Months Ended March 31, 2007 vs. March 31, 2006
	March 31, 2007	2006	
	(In thousands)		
Cost of license revenues	\$ 8,295	\$ 6,631	\$ 1,664
Cost of services revenues	14,891	10,497	4,394
Amortization of product related intangible assets	6,228	5,001	1,227
Total cost of revenues	\$ 29,414	\$ 22,129	\$ 7,285

Table of Contents

Cost of revenues consisted primarily of compensation cost and other personnel-related costs of providing services, the amortization of product related technology, costs of hardware, as well as costs of product media and duplication, manuals, packaging materials, shipping expense, service capacity costs and royalties. Cost of license revenues increased for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 primarily due to increased sales of our of Application Networking products, which contain hardware components that have a higher cost of revenues than our other products. Cost of services revenues increased for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 primarily due increased sales of our Citrix Online Division's products and sales support and consulting services related to our Application Networking and Application Virtualization products. Amortization of core and product technology increased for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 primarily due to increased amortization expense related to core and product technology acquired in our acquisitions. For more information regarding the acquisitions, see Management's Discussion and Analysis of Financial Condition and Results of Operations' Acquisitions' and Note 4 to our condensed consolidated financial statements.

We anticipate that for the remainder of 2007, cost of license revenues will continue to increase as compared to current levels as we expect sales of our Application Networking products to increase. In addition, during 2007, we expect our cost of services revenues to increase due to increased sales of our Citrix Online Division's products and an increase in technical support costs as we increase our customer base, have more frequent product releases and more complex products.

Gross Margin

Gross margin as a percent of revenue was 90.5% for the three months ended March 31, 2007 and 91.5% for the three months ended March 31, 2006. The decrease in gross margin as a percentage of net revenue for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 was primarily due to the increases in cost of revenues as discussed above. We expect our gross margin to decrease when compared to 2006 levels during the remainder of 2007 due to the factors previously discussed.

Research and Development Expenses

	Three Months Ended		Three Months Ended
	March 31,		March 31, 2007
	2007	2006	vs. March 31, 2006
Research and development	\$ 46,544	\$ 34,685	\$ 11,859

Research and development expenses consisted primarily of personnel-related costs. We expensed substantially all development costs included in our research and development of our products and enhancements to existing products as incurred except for certain core technologies with an alternative future use. Research and development expenses increased for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 primarily due to increased staffing and personnel related costs due to our continuing investment in our business, costs related to our acquisitions and, to a lesser extent, additional payroll tax expense that resulted from our voluntary stock option review. Excluding the effects of any pending acquisitions, we expect research and development expenses to increase for the remainder of 2007 when compared to 2006 levels due to the full period impact of our acquisitions and our continued investments in our business including the hiring of personnel. For more information regarding our acquisitions, see Management's Discussion and Analysis of Financial Condition and Results of Operations' Acquisitions' and Note 4 to our condensed consolidated financial statements.

Sales, Marketing and Support Expenses

	Three Months Ended		Three Months Ended
	March 31,		March 31, 2007
	2007	2006	vs. March 31, 2006
Sales, marketing and support	\$ 130,649	\$ 110,027	\$ 20,622

Sales, marketing and support expenses consisted primarily of personnel-related costs, including sales commissions, and the costs of marketing programs aimed at increasing revenue, such as advertising, trade shows, public relations and other market development programs. Sales,

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

marketing and support expenses increased for the three months ended March 31, 2007 compared to the three months

Table of Contents

ended March 31, 2006 primarily due to an increase in headcount and the associated increase in salaries, commissions and other variable compensation and employee related expenses, additional payroll tax expense that resulted from our voluntary stock option review and an increase in costs due to our acquisitions. Excluding the effects of any pending acquisitions, we expect sales, marketing and support expenses to increase for the remainder of 2007 when compared to 2006 levels due to the full period impact of our acquisitions and increased compensation costs as we continue to make investments in our business and hire personnel. For more information regarding our acquisitions, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Acquisitions and Note 4 to our condensed consolidated financial statements.

General and Administrative Expenses

	Three Months Ended		Three Months Ended
	March 31,		March 31, 2007
	2007	2006	vs. March 31, 2006
General and administrative	\$ 57,903	\$ 40,151	\$ 17,752

General and administrative expenses consisted primarily of personnel-related costs, costs related to outside consultants assisting with regulatory compliance and information systems, as well as auditing and legal fees. General and administrative expenses increased for the three months ended March 31, 2007 compared to the three months ended March 31, 2006, primarily due to increases in professional fees related to the voluntary review of our historical stock option granting practices and the associated restatements of our prior consolidated financial statements, an increase due to increased staffing and personnel related costs due to our continuing investment in our business and, to a lesser extent, an increase in payroll taxes related to our voluntary stock option review. Excluding the effects of any pending acquisitions, we expect general and administrative expenses to increase in the second quarter of 2007 due to additional fees related to the voluntary review of our historical stock option granting practices and to increase for the remainder of 2007 when compared to 2006 levels primarily due to the full period impact of costs related to our acquisitions. For more information regarding our acquisitions, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Acquisitions and Note 4 to our condensed consolidated financial statements.

Amortization of Other Intangible Assets

	Three Months Ended		Three Months Ended
	March 31,		March 31, 2007
	2007	2006	vs. March 31, 2006
Amortization of other intangible assets	\$ 4,147	\$ 4,032	\$ 115

Amortization of other intangible assets remained relatively constant when comparing the three months ended March 31, 2007 to the three months ended March 31, 2006. As of March 31, 2007, we had unamortized other identified intangible assets with estimable useful lives in the net amount of \$54.4 million. We expect amortization of other intangible assets to increase for the remainder of 2007 when compared to 2006 levels due to the full period impact of our acquisitions. For more information regarding our acquisitions, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Acquisitions and Note 4 to our condensed consolidated financial statements.

In-process Research and Development

	Three Months Ended		Three Months Ended
	March 31,		March 31, 2007
	2007	2006	vs. March 31, 2006
In-process research and development	\$ 1,200	\$	\$ 1,200

Table of Contents

In January 2007, we acquired Ardence and \$1.2 million of the purchase price was allocated to IPR&D. At the time of completion of the acquisition, the amount allocated to IPR&D in the acquisition had not yet reached technological feasibility, had no alternative future use and was written off at the date of the acquisition in accordance with Financial Accounting Standards Board Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*. For more information regarding our acquisitions, see Management's Discussion and Analysis of Financial Condition and Results of Operations Acquisitions and Note 4 to our condensed consolidated financial statements.

The fair value assigned to IPR&D was based on valuations prepared using methodologies and valuation techniques consistent with those used by independent appraisers. All fair values were determined using the excess earnings method, which includes estimating the revenue and expenses associated with a project's sales cycle and by estimating the amount of after-tax cash flows attributable to the projects. The future cash flows were discounted to present value utilizing an appropriate risk-adjusted rate of return of 22%. The rate of return included a factor that takes into account the uncertainty surrounding the successful development of the IPR&D.

Our efforts with respect to acquired technologies currently consist of design and development that may be required to support the release of the technologies into updated versions of existing service offerings and potentially new product and service offerings. We currently expect that we will successfully develop new products or services utilizing acquired in-process technology, but there can be no assurance that commercial viability of future product or service offerings will be achieved. Furthermore, future developments in the software industry, changes in technology, changes in other products and offerings or other developments may cause us to alter or abandon product plans. Failure to complete the development of projects in their entirety, or in a timely manner, could have a material adverse impact on our financial condition and results of operations.

Interest Income

	Three Months Ended		Three Months Ended
	March 31,		March 31, 2007
	2007	2006	vs. March 31, 2006
Interest income	\$ 11,375	\$ 7,602	\$ 3,773

Interest income increased for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 due to higher average cash, cash equivalent and investment balances that resulted primarily from cash provided by our operating activities and net cash received from the expiration of our structured stock repurchase programs partially offset by cash paid for the Ardence Acquisition and purchases of property and equipment. For more information, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Interest Expense

	Three Months Ended		Three Months Ended
	March 31,		March 31, 2007
	2007	2006	vs. March 31, 2006
Interest expense	\$ 224	\$ 500	\$ (276)

Interest expense decreased for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 primarily due to lower interest paid due to the repayment of our term loan facility in February 2006 partially offset by an increase in interest on payroll taxes related to our voluntary stock option review. For more information, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Note 6 to our condensed consolidated financial statements.

Table of Contents*Other Expense, Net*

	Three Months Ended		Three Months Ended
	March 31,		March 31, 2007
	2007	2006	vs. March 31, 2006
Other income (expense), net	\$ 187	\$ (703)	\$ 890

Other income (expense), net is primarily comprised of remeasurement of foreign currency transaction gains (losses) and realized gains (losses) on the sale of available-for-sale investments. The increase in other income (expense), net during the three months ended March 31, 2007 compared to the three months ended March 31, 2006 was due primarily to an increase in gains related to our foreign currency transactions.

Income Taxes

On January 1, 2007, we adopted the provisions of FASB Interpretation, or FIN, No. 48, *Accounting for Uncertainty in Income Taxes*. As a result of the implementation of FIN No. 48, we recognized an approximate \$12.4 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. As of March 31, 2007, our net unrecognized tax benefits totaled approximately \$37.3 million which included an increase of approximately \$0.4 million for the three months ended March 31, 2007. Included in the balance at March 31, 2007, are approximately \$0.3 million of tax positions which would not affect the annual effective tax rate and approximately \$0.1 million of accrued interest on tax positions.

We and one or more of our subsidiaries are subject to United States, or U.S. federal income taxes in the U.S., as well as, income taxes of multiple state and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2003. The Internal Revenue Service commenced an examination of our U.S. federal income tax returns for 2004 and 2005 in the third quarter of 2006.

We are required to estimate our income taxes in each of the jurisdictions in which we operate as part of the process of preparing our consolidated financial statements. At March 31, 2007, we have approximately \$102.1 million in current and long-term deferred tax assets. SFAS No. 109, *Accounting for Income Taxes*, requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We review deferred tax assets periodically for recoverability and make estimates and judgments regarding the expected geographic sources of taxable income, gains from investments, as well as tax planning strategies in assessing the need for a valuation allowance.

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

We maintain certain operational and administrative processes in overseas subsidiaries and its foreign earnings are taxed at lower foreign tax rates. We do not expect to remit earnings from our foreign subsidiaries. Our effective tax rate was approximately 24.1 % for the three months ended March 31, 2007 and 25.1% for the three months ended March 31, 2006. The decrease in the effective tax rate when comparing the three months ended March 31, 2007 to the three months ended March 31, 2006 was not significant.

Liquidity and Capital Resources

During the three months ended March 31, 2007, we generated positive operating cash flows of \$123.0 million. These cash flows related primarily to net income of \$37.6 million, adjusted for, among other things, non-cash charges, including depreciation and amortization expenses of \$18.8 million, stock-based compensation expense of \$13.9 million and the tax effect of stock-based compensation of \$2.4 million. Also attributed to these cash inflows is an aggregate increase in cash flow from our operating assets and liabilities of \$49.0 million, net of the effects of our acquisitions. These cash inflows are partially offset by an operating cash outflow of \$2.5 million related to the excess tax benefit from the

exercise of stock options. Our investing activities used \$77.0 million

Table of Contents

of cash consisting primarily of \$57.3 million used in our acquisitions, the expenditure of \$15.6 million for the purchase of property and equipment and \$2.8 million used for licensing agreements; partially offset by net proceeds, after reinvestment, from sales and maturities of investments of \$1.3 million. Our financing activities provided cash of \$54.5 million primarily related to net proceeds from the expiration of our structured stock repurchase programs of \$40.0 million and proceeds received from the issuance of common stock under our employee stock-based compensation plans of \$20.1 million, partially offset by payments on debt of \$8.0 million assumed in the Ardence Acquisition.

During the three months ended March 31, 2006, we generated positive operating cash flows of \$97.4 million. These cash flows related primarily to net income of \$41.5 million, adjusted for, among other things, non-cash charges, including depreciation and amortization expenses of \$15.3 million, stock-based compensation expense of \$13.9 million, the tax effect of stock-based compensation of \$12.4 million. These cash inflows are partially offset by an operating cash outflow of \$12.4 million related to the excess tax benefit from the exercise of stock options. Also attributed to these cash inflows is an aggregate increase in cash flow from our operating assets and liabilities of \$24.9 million. Our investing activities used \$191.8 million of cash consisting primarily of purchases net of proceeds from maturities of investments of \$182.4 million and the expenditure of \$8.9 million for property and equipment. Our financing activities provided cash of \$33.5 million related primarily to proceeds received from the issuance of common stock under our employee stock-based compensation plans of \$92.2 million, excess tax benefits from the exercise of stock-based awards of \$12.4 million partially offset by the expenditure of \$40.1 million for our stock repurchase programs and the payment of \$31.0 million on our term loan facility.

Historically, significant portions of our cash inflows were generated by our operations. We currently expect this trend to continue throughout 2007. We believe that our existing cash and investments together with cash flows expected from operations will be sufficient to meet expected operating and capital expenditure requirements for the next 12 months. We continue to search for suitable acquisition candidates and could acquire or make investments in companies we believe are related to our strategic objectives. We could from time to time seek to raise additional funds through the issuance of debt or equity securities for larger acquisitions.

Cash, Cash Equivalents and Investments

	2007		
	Compared to		
	March 31, 2007	December 31, 2006	2006
	(In thousands)		
Cash, cash equivalents and investments	\$ 845,469	\$ 743,381	\$ 102,088

The increase in cash, cash equivalents and investments when comparing March 31, 2007 to December 31, 2006, is primarily due to cash from operations, net cash received from the expiration of our structured stock repurchase programs and proceeds received from the issuance of common stock under our employee stock-based compensation plans, partially offset by cash paid for acquisitions and capital expenditures. See Management's Discussion and Analysis of Financial Condition and Results of Operations Acquisitions and Liquidity and Capital Resources and Note 4 to our condensed consolidated financial statements. We generally invest our cash and cash equivalents in investment grade, highly liquid securities to allow for flexibility in the event of immediate cash needs. Our short-term and long-term investments primarily consist of interest-bearing securities.

Restricted Cash Equivalents and Investments

	2007		
	Compared to		
	March 31, 2007	December 31, 2006	2006
	(In thousands)		
Restricted cash equivalents and investments	\$ 63,671	\$ 63,815	\$ (144)

Restricted cash equivalents and investments are primarily comprised of approximately \$62.8 million in investment securities and cash equivalents pledged as collateral for specified obligations under our synthetic lease arrangement. We maintain the ability to manage the composition of the restricted cash equivalents and investments within certain limits and to withdraw and use excess investment earnings from

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

the pledged collateral for operating purposes. For further information regarding our synthetic lease see Note 12 to our condensed consolidated financial statements.

Table of Contents*Accounts Receivable, Net*

	2007		
	Compared to		
	March 31, 2007	December 31, 2006	2006
	(In thousands)		
Accounts receivable, net	\$ 168,047	\$ 204,974	\$ (36,927)

The decrease in accounts receivable when comparing March 31, 2007 to December 31, 2006 was primarily due to increased collections in January 2007 and, to a lesser extent, lower sales in the last month of the first quarter of 2007 as compared to the last month of the fourth quarter of 2006. Our allowance for returns was \$1.1 million at March 31, 2007 compared to \$1.7 million at December 31, 2006. The activity in our allowance for returns was comprised of \$1.4 million in credits issued for stock balancing rights during 2007 partially offset by \$0.8 million of provisions for returns recorded during the first quarter of 2007. The activity in our allowance for doubtful accounts was comprised of \$0.5 million of uncollectible accounts written off, net of recoveries, partially offset by an additional \$0.2 million of provisions for doubtful accounts recorded during the first quarter of 2007 and \$0.1 million of provisions for doubtful accounts associated with accounts receivable acquired in our Ardenne Acquisition. From time to time, we could maintain individually significant accounts receivable balances from our distributors or customers, which are comprised of large business enterprises, governments and small and medium-sized businesses. If the financial condition of our distributors or customers deteriorates, our operating results could be adversely affected. At March 31, 2007 and December 31, 2006, no distributor or customer accounted for more than 10% of our accounts receivable.

Credit Facility and Term Loan

Effective on August 9, 2005, we entered into the Credit Facility with a group of financial institutions, or the Lenders. Effective September 27, 2006, we entered into an amendment and restatement of our Credit Facility, or the Amendment. The Amendment decreased the overall range of interest we will pay on amounts outstanding on the Credit Facility and lowered the facility fee. In addition, the Amendment extended the term of the Credit Facility. The Credit Facility, as amended, allows us to increase the revolving credit commitment up to a maximum aggregate revolving credit commitment of \$175.0 million. The Credit Facility, as amended, currently provides for a revolving line of credit that will expire on September 27, 2011 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, or LIBOR, plus 0.32% and adjusts in the future in the range of 0.32% to 0.80% above LIBOR based on the level of our total debt and our adjusted earnings before interest, taxes, depreciation and amortization, or EBITDA. In addition, we are required to pay an annual facility fee ranging from 0.08% to 0.20% based on the aggregate amount available under the Credit Facility, as amended, and the level of our total debt and adjusted EBITDA. At March 31, 2007, no funds were borrowed or outstanding under the Credit Facility, as amended.

Effective on August 9, 2005, we entered into a term loan facility, or the Term Loan, with the Lenders. The Term Loan provided for an eighteen-month single-draw term loan facility in the aggregate amount of \$100.0 million. The Term Loan's interest rate was LIBOR plus 0.5% and adjusted in the range of 0.5% to 1.25% above LIBOR based on the level of our total debt and adjusted EBITDA. In addition, we were required to pay an annual facility fee ranging from 0.125% to 0.25% based on the aggregate amount of the Term Loan and the level of our total debt and adjusted EBITDA. For more information related to our long-term debt see Note 6 of our condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations. In February 2006, we repaid the remaining \$31.0 million outstanding under the Term Loan in full.

Our credit facility agreement contains a number of affirmative and negative covenants. Because of delays in filing our Annual Report on Form 10-K for the year ended December 31, 2006, this Quarterly Report on Form 10-Q for the three months ended March 31, 2007 and our Quarterly Report on Form 10-Q for the three months ended June 30, 2007, we were at risk of breaching the affirmative covenant requiring certain financial statements to be provided to our Lenders within 90 days after the end of our fiscal year and 45 days after the end of our fiscal quarters. We received waivers related to these anticipated covenant breaches to extend the due date of such financial statements until September 30, 2007. We have notified our Lenders that we will provide such financial statements by the extension date.

Stock Repurchase Program

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Our Board of Directors has authorized an ongoing stock repurchase program with a total repurchase authority granted to us of \$1.5 billion. We may use the approved dollar authority to repurchase stock at any time until the approved amounts are exhausted. The objective of our stock repurchase program is to improve stockholders' return. At March 31, 2007, approximately \$333.4 million was available to repurchase shares of our common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock.

Table of Contents

We are authorized to make open market purchases of our common stock using general corporate funds. Additionally, during 2007 and 2006 we entered into structured stock repurchase arrangements with large financial institutions using general corporate funds as part of our stock repurchase program in order to lower the average cost to acquire shares. These programs include terms that require us to make up-front payments to the counterparty financial institution and result in the receipt of stock during and/or at the end of the agreement or depending on market conditions, the receipt of either stock or cash at the maturity of the agreement.

During the three months ended March 31, 2007, we received approximately \$40.0, including a \$3.7 million premium related to the maturity of certain of our structured stock repurchase agreements and we made prepayments to financial institutions, net of premiums received, during the three months ended March 31, 2006, of approximately \$29.1 million under our structured stock repurchase arrangements. During the three months ended March 31, 2007, we did not make any open market purchases and during the three months ended March 31, 2006 we expended approximately \$9.9 million on open market purchases. Under our structured stock repurchase agreements no shares were delivered to us during the three months ended March 31, 2007 and we took delivery of 1,073,850 shares with an average price of \$26.24 during the three months ended March 31, 2006. As of March 31, 2007, we have no prepaid notional amounts outstanding under structured stock repurchase agreements. During the three months ended March 31, 2006 we repurchased 322,500 shares of outstanding common stock with an average per share price of \$30.70 in our open market purchase transactions. In addition, a significant portion of the funds used to repurchase stock during the first quarter of 2006 was funded by proceeds from employee stock option exercises and the related tax benefits.

We did not enter into any structured stock repurchase agreements or repurchase any shares of outstanding common stock during our voluntary review of our historical stock option granting practices and related accounting.

Off-Balance Sheet Arrangement

During 2002, we became a party to a synthetic lease arrangement totaling approximately \$61.0 million for our corporate headquarters office space in Fort Lauderdale, Florida. The synthetic lease represents a form of off-balance sheet financing under which an unrelated third party lessor funded 100% of the costs of acquiring the property and leases the asset to us. The synthetic lease qualifies as an operating lease for accounting purposes and as a financing lease for tax purposes. We do not include the property or the lease debt as an asset or a liability on our accompanying consolidated balance sheets. Consequently, payments made pursuant to the lease are recorded as operating expenses in our consolidated statements of income. We entered into the synthetic lease in order to lease our headquarters properties under more favorable terms than under our previous lease arrangements. We do not materially rely on off-balance sheet arrangements for our liquidity or as capital resources.

The initial term of the synthetic lease is seven years. Upon approval by the lessor, we can renew the lease twice for additional two-year periods. The lease payments vary based on LIBOR, plus a margin. At any time during the lease term, we have the option to sublease the property and upon thirty days written notice, we have the option to purchase the property for an amount representing the original property cost and transaction fees of approximately \$61.0 million plus any lease breakage costs and outstanding amounts owed. Upon at least 180 days notice prior to the termination of the initial lease term, we have the option to remarket the property for sale to a third party. If we choose not to purchase the property at the end of the lease term, we have guaranteed a residual value to the lessor of approximately \$51.9 million and possession of the buildings will be returned to the lessor. On a periodic basis, we evaluate the property for indications of permanent impairment. If an evaluation were to indicate that the fair value of the property were to decline below \$51.9 million, we would be responsible for the difference under our residual value guarantee, which could have a material adverse effect on our results of operations and financial condition.

The synthetic lease includes certain financial covenants including a requirement for us to maintain a restricted cash, cash equivalent or investment balance of approximately \$62.8 million as collateral, which is classified as restricted cash equivalents and investments in our accompanying consolidated balance sheets. We maintain the ability to manage the composition of restricted investments within certain limits and to withdraw and use excess investment earnings from the pledged collateral for operating purposes. Additionally, we must maintain a minimum net cash and investment balance of \$100.0 million, excluding our collateralized investments, equity investments and outstanding debt as of the end of each fiscal quarter. As of March 31, 2007, we had approximately \$744.2 million in cash and investments in excess of this required level. The synthetic lease also contains a number of affirmative and negative covenants. Because of delays in filing our Annual Report on Form 10-K for the year ended December 31, 2006, this Quarterly Report on Form 10-Q for the three months ended March 31, 2007 and our Quarterly Report on Form 10-Q for the three months ended June 30, 2007, we were at risk of breaching the affirmative covenants requiring our Annual Report on Form 10-K to be provided to the lessor within 100 days after the end of our fiscal year and our Quarterly Reports on Form 10-Q within 55 days after the end of our fiscal quarters. We received waivers related to these covenant breaches to extend the due date of our Annual Report on Form 10-K for the year ended December 31, 2006, this Quarterly Report on Form 10-Q for the three months ended March 31, 2007 and our Quarterly Report on Form 10-Q for the three months ended June 30, 2007 until October 31, 2007. We have notified our lessor that we will provide such reports to the lessor by the extension date.

Table of Contents

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*, which addresses the consolidation of variable interest entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. In December 2003, the FASB issued FIN No. 46 (revised), which replaced FIN No. 46. FIN No. 46 (revised) was effective immediately for certain disclosure requirements and variable interest entities referred to as special-purpose entities for periods ending after December 15, 2003 and for other types of entities for financial statements for periods ending after March 15, 2004. We determined that we are not required to consolidate the lessor, the leased facility or the related debt associated with our synthetic lease in accordance with FIN No. 46 (revised). Accordingly, there was no impact on our financial position, results of operations or cash flows from adoption. However, if the lessor were to change its ownership of the property or significantly change its ownership of other properties that it currently holds, we could be required to consolidate the entity, the leased facility and the debt in a future period.

Office Leases

During 2002 and 2001, we took actions to consolidate certain of our offices, including the exit of certain leased office space and the abandonment of certain leasehold improvements. Lease obligations related to the remaining existing operating lease continue to 2018 with a total remaining obligation at March 31, 2007 of approximately \$8.8 million, of which \$1.7 million was accrued as of March 31, 2007, and is reflected in accrued expenses and other liabilities in our consolidated financial statements. In calculating this accrual, we made estimates, based on market information, including the estimated vacancy periods and sublease rates and opportunities. We periodically re-evaluate our estimates; and if actual circumstances prove to be materially worse than management has estimated, the total charges for these vacant facilities could be significantly higher.

Contingent Liabilities Related to Internal Revenue Code Section 409A

Because virtually all holders of stock options granted by us were not involved in or aware of the incorrect pricing of certain options, we have taken and intend to take further actions to address certain adverse tax consequences that may be incurred by the holders of such incorrectly priced options. The primary adverse tax consequence is that the re-measured options vesting after December 31, 2004 subject the option holder to a penalty tax under Section 409A of the IRC (and, as applicable, similar excise taxes under state laws). As a result during the first quarter of 2007, we recorded \$2.5 million, net of income tax, in liabilities related to the anticipated payment by us of payroll and excise taxes on behalf of our employees for options that were exercised during open tax years under the related statutes. We expect to incur approximately \$0.9 million, net of income tax, in additional charges to correct future adverse tax consequences under IRC Section 409A related to future employee option exercises of incorrectly priced stock options.

Table of Contents

ITEM 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

There have been no material changes with respect to the information appearing in Part II, Item 7A., Quantitative and Qualitative Disclosures About Market Risk, of our Annual Report on Form 10-K for the year ended December 31, 2006.

ITEM 4. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

As of March 31, 2007, our management, with the participation of our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer concluded that, as of March 31, 2007, the Company's disclosure controls and procedures were effective in ensuring that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the quarter ended March 31, 2007, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In 2006, we were sued in the United States District Court for the Northern District of Ohio and in the United States District Court for the Southern District of Florida, in each case for alleged infringement of U.S. patents by Citrix Online Division's GoToMyPC service. The complaints name Citrix Systems, Inc. and Citrix Online LLC, a wholly-owned subsidiary of Citrix Systems, Inc., as defendants and seek unspecified damages and other relief. In response, we filed answers denying that GoToMyPC infringes these patents and alleging, among other things, that the asserted claims of these patents are invalid. In January 2007, a similar suit naming Citrix Systems, Inc. was filed in the United States District Court of the Eastern District of Texas, and we have filed a response denying infringement and alleging that the asserted patent is invalid. On November 2, 2006, the court in the Northern District of Ohio held a hearing for the purpose of construing disputed terms of the claims of the patent-in-suit, and on March 13, 2007, the court issued a claim construction ruling. On March 21, 2007, we moved for leave to amend our answer in that case to assert an affirmative defense and counterclaim of inequitable conduct, which is a complete defense. On August 28, 2007, the court granted our motion. On April 13 and May 2, 2007, the court in the Southern District of Florida held a hearing for the purpose of construing disputed terms of the claims of the patent-in-suit. The court issued its claim construction ruling in that case June 5, 2007. In addition, the United States Patent and Trademark Office has decided to reexamine the patent at issue in the Southern District of Florida case. We believe that we have meritorious defenses to the allegations made in each of the complaints and intend to vigorously defend these lawsuits; however, we are unable to currently determine the ultimate outcome of these matters or the potential exposure to loss, if any.

On March 8, 2007, a purported stockholder derivative action entitled Sheet Metal Workers Local 28 Pension Fund v. Roger W. Roberts et al. (C.A. No. 07-60316), was filed in the US District Court for the Southern District of Florida against certain of our current and former directors and officers, and against us as a nominal defendant. The complaint asserts, among other things, that certain stock option grants made by us were dated and accounted for inappropriately. The complaint seeks the recovery of monetary damages and other relief for damage allegedly caused to us.

We also received a demand letter dated March 15, 2007 from a purported stockholder with respect to certain stock option grants made to our current and former directors and officers during the years 1996 through 2003. That demand letter asserts, among other things, that certain stock option grants made by us were dated and accounted for inappropriately. The demand letter seeks, among other things, the commencement by our Board of Directors of an action against our directors and officers from 1996 forward for alleged breaches of fiduciary duties in connection with the granting of the options.

In July 2007, two additional purported stockholder derivative actions entitled Ekas v. Citrix, et al. (Case No. 07-16114-11) and Crouse v. Citrix, et al. (Case No. 07-16249-03) were filed in the Circuit Court for Broward County, Florida state court against certain of our current and former directors and officers, and against us as a nominal defendant. On August 14, 2007, notices of removal were filed in both cases removing the cases to the US District Court for the Southern District of Florida, where they are currently pending. The complaints in these actions assert, among other things, that certain stock option grants made by us were dated and accounted for inappropriately. As with the Sheet Metal Workers complaint, the complaints in the Ekas and Crouse actions seek the recovery of monetary damages and other relief for damages allegedly caused to us. We have moved to have all three cases consolidated.

Neither the purported stockholder derivative actions nor the demand letter described above seeks to recover amounts from us.

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

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part 1, Item 1A., Risk Factors of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, which was filed with the Securities and Exchange Commission on September 7, 2007. For convenience, our updated risk factors are included below in this Item 1A.

Matters relating to or arising out of our historical stock option granting practices, including regulatory inquiries or proceedings, litigation matters and potential additional cash and non-cash charges, could have a material adverse effect on us.

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

As described in the Explanatory Note to our Annual Report on Form 10-K for the year ended December 31, 2006, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 2 to our consolidated financial statements included therein, in the fourth quarter of 2006, the Audit Committee of our Board of Directors commenced a voluntary independent investigation of certain of our stock option granting practices and the related accounting during the period from January 1996 through December 2006. This investigation was conducted by the Audit Committee with the assistance of independent outside legal counsel and outside forensic accounting consultants. In addition, management further evaluated all grants in December 1995, which was the month we completed our initial public offering, and all grants to non-employee directors. The Audit Committee and management completed its review in the second quarter of 2007. Based on the facts obtained in connection with the Audit Committee's and management's review, we have concluded that stock options granted during the period from December 1995 to March 2005, were accounted for using incorrect measurement dates, which required a restatement of our previously filed financial statements.

Table of Contents

To date, we have incurred significant expenses related to legal, accounting, tax and other professional services in connection with the review of our historical stock option granting practices and the related restatements, and may incur significant expenses in the future with respect to such matters, including as a result of regulatory inquiries or proceedings, litigation matters or additional cash and non-cash charges. The occurrence of any or all of these events, even if resolved favorably, may be time-consuming, expensive and disruptive to normal business operations, and the outcomes of regulatory proceedings or litigation matters are difficult to predict and could have a material adverse effect on our business, results of operations and financial condition.

As a result of the review of our historical stock option granting practices and the associated restatements, we could not file our periodic reports with the Securities and Exchange Commission, or SEC, on time and, as a result, faced the possibility that our stock would be delisted from The Nasdaq Global Select Market. With the filing of our Annual Report on Form 10-K for the year ended December 31, 2006, this Quarterly Report on Form 10-Q for the three months ended March 31, 2007 and the filing of our Quarterly Report on Form 10-Q for the three months ended June 30, 2007, we believe we have returned to full compliance with SEC reporting requirements and Nasdaq listing requirements and, expect that the Nasdaq delisting matter will be closed. If, however, the SEC has comments on our Annual Report on Form 10-K, this Quarterly Report on Form 10-Q for the three months ended March 31, 2007 and our Quarterly Report on Form 10-Q for the three months ended June 30, 2007 or other reports that we have previously filed that require us to file amended reports, or if Nasdaq does not concur that we are in compliance with applicable listing requirements, we may be unable to maintain an effective listing of our stock on a national securities exchange. If this happens, the price of our common stock and the ability of our stockholders to trade in our stock could be adversely affected. In addition, we would be subject to a number of restrictions regarding the registration of our stock under federal securities laws, and we would not be able to issue stock options or other equity awards to our employees or allow them to exercise outstanding options, which could adversely affect our business and results of operations.

Additionally, as described in the Explanatory Note to our Annual Report on Form 10-K for the year ended December 31, 2006, Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II Item 7 and in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006 in Part IV Item 15, after completion by the Audit Committee of its investigation of our historical stock option granting practices and our review of the accounting treatment for our historical stock option grants, we recorded additional stock-based compensation expenses and related tax effects with regard to certain past stock option grants, and we restated previously issued financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006. Although we believe we have made appropriate judgments in determining the financial and tax impacts of our historical stock option granting practices and have consulted with the Office of the Chief Accountant of the SEC on certain interpretive matters, we cannot provide assurance that the SEC or the Internal Revenue Service, or IRS, will agree with the manner in which we have accounted for and reported, or not reported, the financial and tax impacts. Specifically, in light of the significant judgment used in establishing revised measurement dates, alternate approaches to those used by us could have resulted in different compensation expense charges than those reported in our Annual Report on Form 10-K for the year ended December 31, 2006 and those differences could be considered material. We considered various alternative approaches and believe that the approaches used by us were appropriate under the circumstances. For a complete discussion of the judgments underlying the revised measurement dates, see Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2006. If the SEC or the IRS disagrees with our financial or tax adjustments and such disagreement results in material changes to our historical financial statements, we may be required to further restate our prior financial statements, amend prior filings with the SEC or take other action that is not currently contemplated. In addition, other adjustments for non-operating cash charges may be required in connection with the resolution of stock option related matters arising under any litigation or regulatory reviews commenced against us.

Our long sales cycle for enterprise-wide sales could cause significant variability in our revenue and operating results for any particular period.

In recent quarters, a growing number of our large and medium-sized customers have decided to implement our enterprise customer license arrangements on a departmental or enterprise-wide basis. Our long sales cycle for these large-scale deployments makes it difficult to predict when these sales will occur, and we may not be able to sustain these sales on a predictable basis.

Table of Contents

We have a long sales cycle for these enterprise-wide sales because:

our sales force generally needs to explain and demonstrate the benefits of a large-scale deployment of our product to potential and existing customers prior to sale;

our service personnel typically spend a significant amount of time assisting potential customers in their testing and evaluation of our products and services;

our customers are typically large and medium size organizations that carefully research their technology needs and the many potential projects prior to making capital expenditures for software infrastructure; and

before making a purchase, our potential customers usually must get approvals from various levels of decision makers within their organizations, and this process can be lengthy.

The continued long sales cycle for these large-scale deployment sales could make it difficult to predict the quarter in which sales will occur. Delays in sales could cause significant variability in our revenue and operating results for any particular period.

We face intense competition, which could result in fewer customer orders and reduced revenues and margins.

We sell our products in intensely competitive markets. Some of our competitors and potential competitors have significantly greater financial, technical, sales and marketing and other resources than we do. For example, our ability to market our Application Virtualization products, including Presentation Server, Access Essentials, Password Manager and other future product offerings, could be affected by Microsoft's licensing and pricing scheme for client devices, servers and applications. Further, the announcement of the release, and the actual release, of new Windows-based server operating systems or products incorporating similar features to our products could cause our existing and potential customers to postpone or cancel plans to license certain of our existing and future product and service offerings.

In addition, alternative products for application delivery directly and indirectly compete with our current product lines and our online services.

Existing or new products and services that provide alternatives to our products and services, including those relating to application virtualization, Web application optimization, application performance monitoring, branch office application delivery and WAN optimization, virtual desktop delivery, secure sockets layers/virtual private network, gateways, on-demand assistance, online collaboration and IP telephony, can materially impact our ability to compete in these markets.

Our current competitors in these markets include Adobe Systems, Inc., Cisco Systems, Inc, EMC Corporation, F5 Networks, Inc., Hewlett-Packard Company, IBM Corporation, Juniper Networks, Inc., Microsoft Corporation, Oracle Corporation, Riverbed Technology, Inc., Sun Microsystems, Inc., VMware, Inc. and WebEx Communications, Inc

As the markets for our products and services continue to develop, additional companies, including companies with significant market presence in the computer appliances, software and networking industries, could enter the markets in which we compete and further intensify competition. In addition, we believe price competition could become a more significant competitive factor in the future. As a result, we may not be able to maintain our historic prices and margins, which could adversely affect our business, results of operations and financial condition.

Sales of products within our Application Virtualization product line constitute a majority of our revenue and decreases in demand for our Application Virtualization products could adversely affect our results of operations and financial condition.

We anticipate that sales of products within our Application Virtualization product line and related enhancements will constitute a majority of our revenue for the foreseeable future. Our ability to continue to generate revenue from our Application Virtualization products will depend on market acceptance of Windows Server Operating Systems and/or UNIX Operating Systems. Declines and variability in demand for our Application Virtualization products could occur as a result of:

new competitive product releases and updates to existing products;

termination of our product offerings and enhancements;

potential market saturation;

technological change;

general economic conditions; or

lack of success of entities with which we have a technology relationship.

Table of Contents

If our customers do not continue to purchase our Application Virtualization products as a result of these or other factors, our revenue would decrease and our results of operations and financial condition would be adversely affected. In addition, modification or termination of certain of our Application Virtualization products may cause variability in our revenue and make it difficult to predict our revenue growth and trends in our Application Virtualization products as our customers adjust their purchasing decisions in response to such events.

If we do not develop new products and services or enhancements to our existing products and services, our business, results of operations and financial condition could be adversely affected.

The markets for our products and services are characterized by:

rapid technological change;

evolving industry standards;

fluctuations in customer demand;

changes in customer requirements; and

frequent new product and service introductions and enhancements.

Our future success depends on our ability to continually enhance our current products and services and develop and introduce new products and services that our customers choose to buy. If we are unable to keep pace with technological developments and customer demands by introducing new products and services and enhancements, our business, results of operations and financial condition could be adversely affected. Our future success could be hindered by:

delays in our introduction of new products and services;

delays in market acceptance of new products and services or new releases of our current products and services; and

our, or a competitor's, announcement of new product or service enhancements or technologies that could replace or shorten the life cycle of our existing product and service offerings.

For example, we cannot guarantee that our Application Delivery Infrastructure products will achieve the broad market acceptance by our channel and entities with which we have a technology relationship, customers and prospective customers necessary to generate significant revenue. In addition, we cannot guarantee that we will be able to respond effectively to technological changes or new product announcements by others. If we experience material delays or sales shortfalls with respect to our new products and services or new releases of our current products and services, those delays or shortfalls could have a material adverse effect on our business, results of operations and financial condition.

We believe that we could incur additional costs and royalties as we develop, license or buy new technologies or enhancements to our existing products. These added costs and royalties could increase our cost of revenues and operating expenses. However, we cannot currently quantify the costs for such transactions that have not yet occurred. In addition, we may need to use a substantial portion of our cash and investments to fund these additional costs.

Our business could be adversely impacted by a failure to renew our agreements with Microsoft for source code access.

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

In December 2004, we entered into a five year technology collaboration and licensing agreement with Microsoft Corporation and in September 2007, we entered into a three year source code license with Microsoft Corporation for the general release version of Windows Server 2008. These arrangements include a new technology initiative for closer collaboration on terminal server functionality in future server operating systems, continued access to source code for key components of Microsoft's current and future server operating systems, and a patent cross-licensing agreement. The 2004 technology collaboration and licensing agreement replaces the agreement we signed with Microsoft in May 2002 that provided us access to Microsoft Windows Server source code for current and future Microsoft server operating systems, including access to Windows Server 2003 and terminal services source code. There can be no assurances that our current agreements with Microsoft will be extended or renewed by Microsoft after their respective expirations or that we will enter into new collaboration agreements with Microsoft with respect to future product offerings and enhancements. In addition, Microsoft could terminate the current agreements before the expiration of the term for breach or upon a change of control. The early termination or the failure to renew certain terms of our current agreements with Microsoft in a manner favorable to us, the failure to enter into new collaboration agreements with us or a strategic collaboration between Microsoft and our competitors could negatively impact the timing of our release of future products and enhancements.

If we lose key personnel or cannot hire enough qualified employees, our ability to manage our business could be adversely affected.

Our success depends, in large part, upon the services of a number of key employees. Except for certain key employees of acquired businesses, we do not have long-term employment agreements with any of our key personnel. Any officer or employee can terminate his or her relationship with us at any time. The effective management of our growth, if any, could depend upon our ability to retain our highly skilled technical, managerial, finance and marketing personnel. If any of those employees leave, we will need to

Table of Contents

attract and retain replacements for them. We also need to add key personnel in the future. The market for these qualified employees is competitive. We could find it difficult to successfully attract, assimilate or retain sufficiently qualified personnel in sufficient numbers. Furthermore, we may hire key personnel in connection with our future acquisitions; however, any of these employees will be able to terminate his or her relationship with us at any time. If we cannot retain and add the necessary staff and resources for these acquired businesses, our ability to develop acquired products, markets and customers could be adversely affected. Also, we may need to hire additional personnel to develop new products, product enhancements and technologies. If we cannot add the necessary staff and resources, our ability to develop future enhancements and features to our existing or future products could be delayed. Any delays could have a material adverse effect on our business, results of operations and financial condition.

If we fail to manage our operations and grow revenue or fail to continue to effectively control expenses, our future operating results could be adversely affected.

Historically, the scope of our operations, the number of our employees and the geographic area of our operations and our revenue have grown rapidly. In addition, we have acquired both domestic and international companies. This growth and the assimilation of acquired operations and their employees could continue to place a significant strain on our managerial, operational and financial resources. To manage our current growth and any future growth effectively, we need to continue to implement and improve additional management and financial systems and controls. We may not be able to manage the current scope of our operations or future growth effectively and still exploit market opportunities for our products and services in a timely and cost-effective way. Our future operating results could also depend on our ability to manage:

our expanding product lines;

our marketing and sales organizations; and

our client support organization as installations of our products increase.

In addition, to the extent our revenue grows, if at all, we believe that our cost of revenues and certain operating expenses could also increase. We believe that we could incur additional costs, including royalties, as we develop, license or buy new technologies or enhancements to our existing products and services. These added costs and royalties could increase our cost of revenues and operating expenses and lower our gross margins. For example, due to our recent acquisitions and the anticipated growth of the acquired companies, we currently expect that our future revenue will include a greater level of revenue from appliance sales as compared to our historical level of appliance sales, which we expect will reduce our gross margins from their historical levels. Furthermore, as our income from the recent acquisitions increases, we expect that our effective tax rate may increase due to the taxable income from these acquisitions being earned primarily in our geographic locations that are taxed at a higher rate. However, we cannot currently quantify the costs for such transactions that have not yet occurred or of these developing trends in our business. In addition, we may need to use a substantial portion of our cash and investments or issue additional shares of our common stock to fund these additional costs.

During the past two years, a large portion of our growth has been attributable to the growth of our Application Virtualization products, as well as, growth in our Online Services and Application Networking products. We cannot provide any assurance that these markets and the revenues we derive from these markets will continue to grow. In addition, over the last four years we have grown our force of sales professionals that work closely with partners to sell to primary IT buyers, including Strategic IT Executives, Network Architects, IT Infrastructure Managers and Desktop Operations Managers, to address the multiple selling and buying opportunities presented by our expanded product lines. These and other account penetration efforts are part of our strategy to increase the usage of our application delivery products within our customer's IT organizations. We cannot provide any assurance that this strategy will be successful or that the release of our application delivery infrastructure products or other new products or services will increase our revenue growth rate.

We cannot assure you that our operating expenses will be lower than our estimated or actual revenues in any given quarter. If we experience a shortfall in revenue in any given quarter, we likely will not be able to further reduce operating expenses quickly in response. Any significant shortfall in revenue could immediately and adversely affect our results of operations for that quarter. Also, due to the fixed nature of many of our expenses and our current expectation for revenue growth, our income from operations and cash flows from operating and investing activities could be lower than in recent years.

Table of Contents

Acquisitions present many risks, and we may not realize the financial and strategic goals we anticipate at the time of an acquisition.

Our growth is dependent upon market growth, our ability to enhance existing products and services, and our ability to introduce new products and services on a timely basis. We intend to continue to address the need to develop new products and services and enhance existing products and services through acquisitions of other companies, product lines and/or technologies. However, acquisitions, including those of high-technology companies, are inherently risky. We cannot provide any assurance that any of our previous acquisitions, including our acquisitions over the past three years, or future acquisitions will be successful in helping us reach our financial and strategic goals either for that acquisition or for us generally or that the combined company resulting from any acquisition will continue to support the growth achieved by the companies separately.

The risks we commonly encounter in managing and integrating acquisitions are:

difficulties and delays integrating the operations, technologies, and products of the acquired companies;

undetected errors or unauthorized use of a third-party's code in products of the acquired companies;

the diversion of management's attention from normal daily operations of the business;

potential difficulties in completing projects associated with purchased in-process research and development;

entry into markets in which we have no or limited direct prior experience and where competitors have stronger market positions and which are highly competitive;

the potential loss of key employees of the acquired company; and

an uncertain sales and earnings stream from the acquired company, which could unexpectedly dilute our earnings.

Our failure to manage growth effectively and successfully integrate acquired companies due to these or other factors could have a material adverse effect on our business, results of operations and financial condition.

The benefits we anticipate from acquiring XenSource may not be realized.

We entered into a merger agreement with XenSource with the expectation that the acquisition will result in various benefits including, among other things, enhanced revenue and profits, greater market presence and development, and enhancements to our product portfolio and customer base. We expect that the acquisition will move us into adjacent server and desktop virtualization markets that will allow us to extend our leadership in the broader Application Delivery Infrastructure market by adding key enabling technologies that make the end-to-end computing environment more flexible, dynamic and responsive to business change. We may not realize any of these benefits.

In addition, we may not achieve the anticipated benefits of our acquisition of XenSource as rapidly as, or to the extent, anticipated by our management and certain financial or industry analysts, and others may not perceive the same benefits of the acquisition as we do. For example, XenSource's contribution to our financial results may not meet the current expectations of our management for a number of reasons, including the integration risks described above, and could dilute our profits beyond the current expectations of our management. Operations and costs incurred and potential liabilities assumed in connection with our acquisition of XenSource also could have an adverse effect on our business, financial condition and operating results. If these risks materialize, our stock price could be materially adversely affected.

Although we currently expect to close the XenSource acquisition in the fourth quarter of 2007, our acquisition of XenSource is subject to a number of closing conditions, including approval by the XenSource stockholders and regulatory approvals. If these closing conditions are not

met, we may not be able to complete our acquisition of XenSource.

If we determine that any of our goodwill or intangible assets, including technology purchased in acquisitions, are impaired, we would be required to take a charge to earnings, which could have a material adverse effect on our results of operations.

We have a significant amount of goodwill and other intangible assets, such as product and core technology, related to our acquisitions. We expect to record significant additional goodwill and other intangible asset amounts in connection with the acquisition of XenSource when the acquisition is consummated. We do not amortize goodwill and intangible assets that are deemed to have indefinite lives. However, we do amortize certain product and core technologies, trademarks, patents and other intangibles. We periodically evaluate our intangible assets, including goodwill, for impairment at the reporting unit level (operating segment). As of March 31, 2007, we had \$675.8 million of goodwill, of which approximately \$44.4 million of goodwill was recorded in connection with our 2006 Acquisitions and \$44.1 million of goodwill was recorded in connection with our Ardence Acquisition. We review for impairment annually, or sooner if events or changes in circumstances indicate that the carrying amount could exceed fair value. Fair values are based on discounted cash flows using a discount rate determined by our management to be consistent with industry discount rates and the risks inherent in our current business model. Due to uncertain market conditions and potential changes in our strategy and product portfolio, it is possible that the forecasts we use to support our goodwill and other intangible assets could change in the future, which could result in non-cash charges that would adversely affect our results of operations and financial condition.

Furthermore, impairment testing requires significant judgment, including the identification of reporting units based on our internal reporting structure that reflects the way we manage our business and operations and to which our goodwill and intangible assets would be assigned. Significant judgments are required to estimate the fair value of our goodwill and intangible assets, including estimating future cash flows, determining appropriate discount rates, estimating the applicable tax rates, foreign exchange rates and interest rates, projecting the future industry trends and market conditions, and making other assumptions. Changes in these estimates and assumptions, including changes in our reporting structure, could materially affect our determinations of fair value.

We recorded approximately \$131.6 million of goodwill and intangible assets in connection with our 2006 Acquisitions and our Ardence Acquisition. If the actual revenues and operating profit attributable to acquired intangible assets are less than the projections we used to initially value these intangible assets when we acquired them, then these intangible assets may be deemed to be impaired. If we determine that any of the goodwill or other intangible assets associated with our recent acquisitions are impaired, then we would be required to reduce the value of those assets or to write them off completely by taking a related charge to earnings. If we are required to write down or write off all or a portion of those assets, or if financial analysts or investors believe we may need to take such action in the future, our stock price and operating results could be materially adversely affected.

Table of Contents

At March 31, 2007, we had \$154.9 million, net, of unamortized identified intangibles, which include core and product technology we purchased in acquisitions or under third party licenses. We currently market the technologies acquired in our acquisitions through our Citrix Online Division products, Application Networking products, Advanced Solutions products and Management Systems products. However, our channel distributors and entities with which we have technology relationships, customers or prospective customers may not purchase or widely accept our new appliances and continue to accept our Citrix Online Division products. If we fail to complete the development of our anticipated future product and service offerings, including product offerings acquired through our acquisitions, if we fail to complete them in a timely manner, or if we are unsuccessful in selling any new lines of products, appliances and services, we could determine that the value of the purchased technology is impaired in whole or in part and take a charge to earnings. We could also incur additional charges in later periods to reflect costs associated with completing those projects that could not be completed in a timely manner. An impairment charge could have a material adverse effect on our results of operations. If the actual revenues and operating profit attributable to acquired product and core technologies are less than the projections we used to initially value product and core technologies when we acquired it, such intangible assets may be deemed to be impaired. If we determine that any of our intangible assets are impaired, we would be required to take a related charge to earnings that could have a material adverse effect on our results of operations.

Our business could be adversely impacted by conditions affecting the information technology market.

The demand for our products and services depends substantially upon the general demand for business-related computer appliances and software, which fluctuates based on numerous factors, including capital spending levels, the spending levels and growth of our current and prospective customers and general economic conditions. Fluctuations in the demand for our products and services could have a material adverse effect on our business, results of operations and financial condition. In the past, adverse economic conditions decreased demand for our products and negatively impacted our financial results. Future economic projections for the information technology sector are uncertain. If an uncertain information technology spending environment persists, it could negatively impact our business, results of operations and financial condition.

Our business could be adversely affected if we are unable to expand and diversify our distribution channels.

We currently intend to continue to expand our distribution channels by leveraging our relationships with independent hardware and software vendors and system integrators to encourage them to recommend or distribute our products. In addition, an integral part of our strategy is to diversify our base of channel relationships by adding more channel members with abilities to reach larger enterprise customers and to sell our newer products. This will require additional resources, as we will need to expand our internal sales and service coverage of these customers. If we fail in these efforts and cannot expand or diversify our distribution channels, our business could be adversely affected. In addition to this diversification of our base, we will need to maintain a healthy mix of channel members who cater to smaller customers. We may need to add and remove distribution members to maintain customer satisfaction and a steady adoption rate of our products, which could increase our operating expenses. Through our accessPARTNER network, Citrix Authorized Learning Centers and other programs, we are currently investing, and intend to continue to invest, significant resources to develop these channels, which could reduce our profits.

We could change our licensing programs or subscription renewal programs, which could negatively impact the timing of our recognition of revenue.

We continually re-evaluate our licensing programs and subscription renewal programs, including specific license models, delivery methods, and terms and conditions, to market our current and future products and services. We could implement new licensing programs and subscription renewal programs, including offering specified and unspecified enhancements to our current and future product and service lines. Such changes could result in recognizing revenues over the contract term as opposed to upon the initial shipment or licensing of our software product. We could implement different licensing models in certain circumstances, for which we would recognize licensing fees over a longer period. Changes to our licensing programs and subscription renewal programs, including the timing of the release of enhancements, upgrades, and maintenance releases, the term of the contract, discounts and other factors, could impact the timing of the recognition of revenue for our products, related enhancements and services and could adversely affect our operating results and financial condition.

Sales of our Subscription Advantage product constitute substantially all of our License Updates revenue and a large portion of our deferred revenue.

We anticipate that sales of our Subscription Advantage product will continue to constitute a substantial portion of our License Updates revenue. Our ability to continue to generate both recognized and deferred revenue from our Subscription Advantage product will depend on our customers continuing to perceive value in automatic delivery of our software upgrades and enhancements. A

Table of Contents

decrease in demand for our Subscription Advantage product could occur as a result of a decrease in demand for our Application Virtualization, Application Networking and Management Systems products. If our customers do not continue to purchase our Subscription Advantage product, our License Updates revenue and deferred revenue would decrease significantly and our results of operations and financial condition would be adversely affected.

As our international sales and operations grow, we could become increasingly subject to additional risks that could harm our business.

We conduct significant sales and customer support, development and engineering operations in countries outside of the United States including, as a result of our acquisition of NetScaler, product development in Bangalore, India. During the three months ended March 31, 2007, we derived approximately 43.7% of our revenues from sales outside the United States. Our continued growth and profitability could require us to further expand our international operations. To successfully expand international sales, we must establish additional foreign operations, hire additional personnel and recruit additional international resellers. Our international operations are subject to a variety of risks, which could cause fluctuations in the results of our international operations. These risks include:

compliance with foreign regulatory and market requirements;

variability of foreign economic, political and labor conditions;

changing restrictions imposed by regulatory requirements, tariffs or other trade barriers or by United States export laws;

longer accounts receivable payment cycles;

potentially adverse tax consequences;

difficulties in protecting intellectual property;

burdens of complying with a wide variety of foreign laws; and

as we generate cash flow in non-U.S. jurisdictions, if required, we may experience difficulty transferring such funds to the U.S. in a tax efficient manner.

Our results of operations are also 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 one year in advance of anticipated foreign currency expenses. When the dollar is weak foreign currency denominated expenses will be higher. As a result of our hedging practice these higher expenses will be partially offset by the gain in our hedging contracts. If the dollar is strong, foreign currency denominated expenses will be lower. These lower expenses will in turn 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. Due to the generally weaker dollar in the first quarter of 2007 our operating expenses benefited from gains in our hedging programs as compared to the first quarter of 2006.

Our success depends, in part, on our ability to anticipate and address these risks. We cannot guarantee that these or other factors will not adversely affect our business or operating results.

Our proprietary rights could offer only limited protection. Our products, including products obtained through acquisitions, could infringe third-party intellectual property rights, which could result in material costs.

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Our efforts to protect our proprietary rights may not be successful. We rely primarily on a combination of copyright, trademark, patent and trade secret laws, confidentiality procedures and contractual provisions, to protect our proprietary rights. The loss of any material trade secret, trademark, trade name, patent or copyright could have a material adverse effect on our business. Despite our precautions, it could be possible for unauthorized third parties to copy or reverse engineer certain portions of our products or to otherwise obtain and use our proprietary information. If we cannot protect our proprietary technology against unauthorized copying or use, we may not remain competitive. Any patents owned by us could be invalidated, circumvented or challenged. Any of our pending or future patent applications, whether or not being currently challenged, may not be issued with the scope we seek, if at all, and if issued, may not provide any meaningful protection or competitive advantage.

In addition, our ability to protect our proprietary rights could be affected by:

Differences in International Law; Enforceability of Licenses. The laws of some foreign countries do not protect our intellectual property to the same extent as do the laws of the United States and Canada. For example, we derive a significant portion of our sales from licensing our packaged products under shrink wrap or click-to-accept license agreements that are not signed by licensees and electronic enterprise customer licensing arrangements that are delivered electronically, all of which could be unenforceable under the laws of many foreign jurisdictions in which we license our products.

Table of Contents

Third Party Infringement Claims. We may become increasingly subject to infringement claims and claims alleging the unauthorized use of a third-party's code in our products. This may occur for a variety of reasons, including the expansion of our product lines, such as our Application Networking products, our Citrix Online Division products, through product development and acquisitions, including our proposed acquisition of XenSource and the increase in the number of competitors in our industry segments and the resulting increase in the number of related products and the overlap in the functionality of those products. Companies and inventors are more frequently seeking to patent software and business methods because of developments in the law that could extend the ability to obtain such patents. As a result, we could receive more patent infringement claims. Responding to any infringement claim, regardless of its validity, could result in costly litigation; injunctive relief or require us to obtain a license to intellectual property rights of those third parties. Licenses may not be available on reasonable terms, on terms compatible with the protection of our proprietary rights, or at all. In addition, attention to these claims could divert our management's time and attention from developing our business. If a successful claim is made against us and we fail to develop or license a substitute technology, our business, results of operations, financial condition or cash flows could be materially adversely affected.

We are subject to risks associated with our strategic and technology relationships.

Our business depends on strategic and technology relationships. We cannot assure you that those relationships will continue in the future. In addition to our relationship with Microsoft, we rely on strategic or technology relationships with such companies as Dell Inc., Hewlett-Packard Company, International Business Machines Corporation, SAP and others. We depend on the entities with which we have strategic or technology relationships to successfully test our products, to incorporate our technology into their products and to market and sell those products. We cannot assure you that we will be able to maintain our current strategic and technology relationships or to develop additional strategic and technology relationships. If any entities in which we have a strategic or technology relationship are unable to incorporate our technology into their products or to market or sell those products, our business, results of operations and financial condition could be materially adversely affected.

If we lose access to third party licenses, releases of our products could be delayed.

We believe that we will continue to rely, in part, on third party licenses to enhance and differentiate our products. Third party licensing arrangements are subject to a number of risks and uncertainties, including:

undetected errors or unauthorized use of another person's code in the third party's software;

disagreement over the scope of the license and other key terms, such as royalties payable;

infringement actions brought by third party licensees; and

termination or expiration of the license.

If we lose or are unable to maintain any of these third party licenses or are required to modify software obtained under third party licenses, it could delay the release of our products. Any delays could have a material adverse effect on our business, results of operations and financial condition.

Our success depends on our ability to attract and retain and further penetrate large enterprise customers.

We must retain and continue to expand our ability to reach and penetrate large enterprise customers by adding effective channel distributors and expanding our consulting services. Our inability to attract and retain large enterprise customers could have a material adverse effect on our business, results of operations and financial condition. Large enterprise customers usually request special pricing and generally have longer sales cycles, which could negatively impact our revenues. By granting special pricing, such as bundled pricing or discounts, to these large customers, we may have to defer recognition of some or all of the revenue from such sales. This deferral could reduce our revenues and operating profits for a given reporting period. Additionally, as we attempt to attract and penetrate large enterprise customers, we may need to increase corporate branding and marketing activities, which could increase our operating expenses. These efforts may not proportionally increase our operating revenues and could reduce our profits.

Our success may depend on our ability to attract and retain small-sized customers.

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

In order to successfully attract new customer segments to our Presentation Server products and expand our existing relationships with enterprise customers, we must reach and retain small-sized customers and small project initiatives within our larger enterprise customers. We have begun a marketing initiative to reach these customers that includes extending our Advisor Rewards program to include a broader range of license types. In 2005, we also introduced a new product, Access Essentials, specifically developed,

Table of Contents

packaged and priced to bring secure application virtualization and efficient centralized management of information resources to small and mid-sized businesses. We cannot guarantee that our small-sized customer marketing initiative or new product will be successful. Our failure to attract and retain small sized customers and small project initiatives within our larger enterprise customers could have a material adverse effect on our business, results of operations and financial condition. Additionally, as we attempt to attract and retain small sized customers and small project initiatives within our larger enterprise customers, we may need to increase corporate branding and broaden our marketing activities, which could increase our operating expenses. These efforts may not proportionally increase our operating revenues and could reduce our profits.

We rely on indirect distribution channels and major distributors that we do not control.

We rely significantly on independent distributors and resellers to market and distribute our products and appliances. We do not control our distributors and resellers. Additionally, our distributors and resellers are not obligated to buy our products and could also represent other lines of products. Some of our distributors and resellers maintain inventories of our packaged products for resale to smaller end-users. If distributors and resellers reduce their inventory of our packaged products, our business could be adversely affected. Further, we could maintain individually significant accounts receivable balances with certain distributors. The financial condition of our distributors could deteriorate and distributors could significantly delay or default on their payment obligations. Any significant delays, defaults or terminations could have a material adverse effect on our business, results of operations and financial condition.

For certain of our products we rely on third-party suppliers and contract manufacturers, making us vulnerable to supply problems and price fluctuations.

We rely on a number of third-party suppliers who provide hardware or the components thereof, many of which are sole-source suppliers. For example, all of the production, final test, warehousing and shipping for our Application Networking products, including our NetScaler products, Access Gateway products and WANScaler products are primarily performed by a third-party contract manufacturer. We do not typically have long-term supply agreements with our suppliers; and, in most cases, we purchase the products and components on an as-needed purchase order basis. In some instances, such as with respect to our Application Networking products, we maintain internal manufacturing capabilities to supplement third-party contract manufacturers and provide us with the flexibility needed to meet our product delivery requirements on sales orders on a limited basis. While we have not, to date, experienced any material difficulties or delays in the manufacture and assembly of our products, our suppliers may encounter problems during manufacturing due to a variety of reasons, including failure to follow specific protocols and procedures, failure to comply with applicable regulations, equipment malfunction and environmental factors, any of which could delay or impede their ability to meet our demand. Our reliance on these third-party suppliers and contract manufacturers subjects us to risks that could harm our business, including:

we may have difficulty locating and qualifying alternative suppliers for our sole-source supplies;

our suppliers, especially new suppliers, may make errors in manufacturing components that could negatively affect the efficacy of our products or cause delays in shipment;

our suppliers manufacture products for a range of customers, and fluctuations in demand for the products these suppliers manufacture for others may affect their ability to deliver components and products to us in a timely manner; and

our suppliers may encounter financial hardships unrelated to our demand for components, which could inhibit their ability to fulfill our orders and meet our requirements.

There may be delay associated with establishing additional or replacement suppliers, particularly for components that are available only from sole or limited sources. Any interruption or delay in the supply of products or components, or our inability to obtain products or components from alternate sources at acceptable prices in a timely manner, could impair our ability to meet the demand of our customers and adversely affect our business, financial condition or results of operations.

Our products could contain errors that could delay the release of new products and may not be detected until after our products are shipped.

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Despite significant testing by us and by current and potential customers, our products, especially new products or releases or acquired products, could contain errors. In some cases, these errors may not be discovered until after commercial shipments have been made. Errors in our products could delay the development or release of new products and could adversely affect market acceptance of our products. Additionally, our products depend on third party products, which could contain defects and could reduce the performance of our products or render them useless. Because our products are often used in mission-critical applications, errors in our products or the products of third parties upon which our products rely could give rise to warranty or other claims by our customers.

Table of Contents

Our synthetic lease is an off-balance sheet arrangement that could negatively affect our financial condition and results.

In April 2002, we entered into a seven-year synthetic lease with a lessor for our headquarters office buildings in Fort Lauderdale, Florida. The synthetic lease qualifies for operating lease accounting treatment under SFAS No. 13, *Accounting for Leases*, so we do not include the property or the associated lease debt on our consolidated balance sheet. However, if the lessor were to change its ownership of our property or significantly change its ownership of other properties that it currently holds, under FIN No. 46, *Consolidation of Variable Interest Entities (revised)* we could be required to consolidate the entity, the leased facility and the debt at that time.

If we elect not to purchase the property at the end of the lease term, we have guaranteed a minimum residual value of approximately \$51.9 million to the lessor. Therefore, if the fair value of the property declines below \$51.9 million, our residual value guarantee would require us to pay the difference to the lessor, which could have a material adverse effect on our results of operations and financial condition.

Our synthetic lease contains a number of affirmative and negative covenants. Because of delays in filing our Annual Report on Form 10-K for the year ended December 31, 2006, this Quarterly Report on Form 10-Q for the three months ended March 31, 2007 and our Quarterly Report on Form 10-Q for the three months ended June 30, 2007, we were at risk of breaching the affirmative covenants requiring our Annual Report on Form 10-K for the year ended December 31, 2006 to be provided to the lessor within 100 days after the end of our fiscal year and our Quarterly Reports on Form 10-Q within 55 days after the end of our fiscal quarters. We received waivers related to these anticipated covenant breaches to extend the due date of our Annual Report on Form 10-K for the year ended December 31, 2006, this Quarterly Report on Form 10-Q for the three months ended March 31, 2007 and our Quarterly Report on Form 10-Q for the three months ended June 30, 2007 until October 31, 2007. We have notified our lessor that we will provide such reports to the lessor by the extension date.

We have entered into credit facility agreements that restrict our ability to conduct our business and failure to comply with such agreements may have an adverse effect on our business, liquidity and financial position.

We and our subsidiary, Citrix Systems International GmbH, maintain a credit facility agreement that contains financial covenants tied to maximum consolidated leverage ratio and minimum interest coverage, among other things. The credit facility agreement also contains affirmative and negative covenants, including limitations related to our ability to incur future indebtedness, contingent obligations or liens, conduct certain mergers or acquisitions, make certain investments and loans, alter our capital structure, sell stock or assets and pay dividends. If we fail to comply with these covenants or any other provision of the credit facility agreement, we may be in default under the credit facility agreement, and we cannot assure you that we will be able to obtain the necessary amendments or waivers of such default. Upon an event of default under our credit facility agreement not otherwise amended or waived, the affected lenders could accelerate the repayment of any outstanding principal and accrued interest on their outstanding loans and terminate their commitments to lend additional funds, which may have a material adverse effect on our liquidity and financial position. As of December 31, 2006, there were no amounts outstanding under our credit facility agreement.

Our credit facility agreement contains a number of affirmative and negative covenants. Because of delays in filing our Annual Report on Form 10-K for the year ended December 31, this Quarterly Report on Form 10-Q for the three months ended March 31, 2007 and our Quarterly Report on Form 10-Q for the three months ended June 30, 2006, we were at risk of breaching the affirmative covenants requiring certain financial statements to be provided to our Lenders within 90 days after the end of our fiscal year and 45 days after the end of our fiscal quarters. We received waivers related to these anticipated covenant breaches to extend the due date of such financial statements until September 30, 2007. We have notified our Lenders that we will provide such financial statements by the extension dates.

If our security measures are breached and unauthorized access is obtained to our Citrix Online Division customers' data, our services may be perceived as not being secure and customers may curtail or stop using our service.

Use of our GoToMyPC, GoToMeeting, GoToAssist or GoToWebinar services involves the storage and transmission of customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and, as a result, someone obtains unauthorized access to one of our online customers' data, our reputation will be damaged, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access to or sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If any compromises of security were to occur, it could have the effect of substantially reducing the use of the Web for commerce and communications. Anyone who circumvents our security measures could misappropriate proprietary information or cause interruptions in our services or operations. The Internet is a public network, and data are sent over this network from many sources. In the past, computer viruses, software programs that disable or impair computers, have been distributed and have rapidly spread over the Internet. Computer viruses could be introduced into our systems or those of

Table of Contents

our customers or suppliers, which could disrupt our network or make it inaccessible to our Citrix Online Division customers. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and customers for our Citrix Online Division, which would significantly adversely affect our financial condition and the operating results for our Citrix Online Division.

Evolving regulation of the Web may adversely affect our Citrix Online Division.

As Web commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. For example, we believe increased regulation is likely in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information could affect our online customers' ability to use and share data and restricting our ability to store, process and share data with these customers. In addition, taxation of services provided over the Web or other charges imposed by government agencies or by private organizations for accessing the Web may also be imposed. Any regulation imposing greater fees for Web use or restricting information exchange over the Web could result in a decline in the use of the Web and the viability of Web-based services, which would significantly adversely affect our financial condition and the operating results for our Citrix Online Division.

Natural disasters or other unanticipated catastrophes that result in a disruption of our operations could negatively impact our results of operations.

Our worldwide operations are dependent on our network infrastructure, internal technology systems and Website. Significant portions of our computer equipment, intellectual property resources and personnel, including critical resources dedicated to research and development and administrative support functions are presently located at our corporate headquarters in Fort Lauderdale, Florida, an area of the country that is particularly prone to hurricanes and at our various locations in California, an area of the country that is particularly prone to earthquakes. We also have operations in various domestic and international locations that expose us to additional diverse risks. The occurrence of natural disasters, such as hurricanes or earthquakes, or other unanticipated catastrophes, such as telecommunications failures, cyber-attacks, fires or terrorist attacks, at any of the locations in which we do business, could cause interruptions in our operations. For example, in October 2005, Hurricane Wilma passed through southern Florida causing extensive damage to the region, including some minor damage to our corporate headquarters facility. In addition, even in the absence of direct damage to our operations, large disasters, terrorist attacks or other casualty events could have a significant impact on our partners' and customers' businesses, which in turn could result in a negative impact on our results of operations. Extensive or multiple disruptions in our operations, or our partners' or customers' businesses, due to natural disasters or other unanticipated catastrophes could have a material adverse effect on our results of operations.

If we do not generate sufficient cash flow from operations in the future, we may not be able to fund our product development and acquisitions and fulfill our future obligations.

Our ability to generate sufficient cash flow from operations to fund our operations and product development, including the payment of cash consideration in acquisitions and the payment of our other obligations, depends on a range of economic, competitive and business factors, many of which are outside our control. We cannot assure you that our business will generate sufficient cash flow from operations, or that we will be able to liquidate our investments, repatriate cash and investments held in our overseas subsidiaries, sell assets or raise equity or debt financings when needed or desirable. An inability to fund our operations or fulfill outstanding obligations could have a material adverse effect on our business, financial condition and results of operations. For further information, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

If stock balancing returns or price adjustments exceed our reserves, our operating results could be adversely affected.

We provide most of our distributors with stock balancing return rights, which generally permit our distributors to return products to us by the forty-fifth day of a fiscal quarter, subject to ordering an equal dollar amount of our products prior to the last day of the same fiscal quarter. We also provide price protection rights to most of our distributors. Price protection rights require that we grant retroactive price adjustments for inventories of our products held by distributors if we lower our prices for those products within a specified time period. To cover our exposure to these product returns and price adjustments, we establish reserves based on our evaluation of historical product trends and current marketing plans. However, we cannot assure you that our reserves will be sufficient to cover our future product returns and price adjustments. If we inadequately forecast reserves, our operating results could be adversely affected.

Table of Contents

Our stock price could be volatile, and you could lose the value of your investment.

Our stock price has been volatile and has fluctuated significantly in the past. The trading price of our stock is likely to continue to be volatile and subject to fluctuations in the future. Your investment in our stock could lose some or all of its value. Some of the factors that could significantly affect the market price of our stock include:

actual or anticipated variations in operating and financial results;

analyst reports or recommendations;

changes in interest rates; and

other events or factors, many of which are beyond our control.

The stock market in general, The Nasdaq Global Select Market (formerly, the Nasdaq National Market), and the market for software companies and technology companies in particular, have experienced extreme price and volume fluctuations. These broad market and industry factors could materially and adversely affect the market price of our stock, regardless of our actual operating performance.

Changes or modifications in financial accounting standards related to share-based compensation may have a material adverse impact on our reported results of operations.

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards, or SFAS, No. 123R, Share-Based Payment, a complex accounting standard that requires companies to expense the fair value of employee stock options and similar awards. The application of SFAS No. 123R requires significant judgment and the use of estimates, particularly surrounding stock price volatility, option forfeiture rates and expected option lives, to build a model for appropriately valuing share-based compensation. There is little experience or guidance with respect to developing these assumptions and models. There is a risk that, as we and others gain experience with SFAS No. 123R or as a result of subsequent accounting guidelines, we could determine that the assumptions or model we used requires modification. Any such modification could result in significantly different charges in future periods and, potentially, could require us to correct the charges taken in prior periods. These modifications, as well as any such corrections of charges taken in a prior period could negatively affect our results of operations, stock price and our stock price volatility.

Our business is subject to seasonal fluctuations.

Our business is subject to seasonal fluctuations. Historically, our net revenues have fluctuated quarterly and have generally been the highest in the fourth quarter of our fiscal year due to corporate calendar year-end spending trends. In addition, our European operations generally provide lower revenues in the summer months because of the generally reduced level of economic activity in Europe during the summer. This seasonal factor also typically results in higher fourth quarter revenues. Quarterly results are also affected by the timing of the release of new products and services. Because of the seasonality of our business, results for any quarter, especially our fourth quarter, are not necessarily indicative of the results that may be achieved for the full fiscal year.

Our business and investments could be adversely impacted by unfavorable economic political and social conditions.

General economic and market conditions, and other factors outside our control including significant natural disasters, terrorist attacks or military actions, could adversely affect our business and impair the value of our investments. Any downturn in general economic conditions could result in a reduction in demand for our products and services and could harm our business. These conditions make it difficult for us, and our customers, to accurately forecast and plan future business activities and could have a material adverse effect on our business, financial condition and results of operations. In addition, an economic downturn could result in an impairment in the value of our investments requiring us to record losses related to such investments. Impairment in the value of these investments may disrupt our ongoing business and distract management. As of March 31, 2007 we had \$421.6 million of short and long-term investments, including restricted investments, with various issuers and financial institutions. In many cases we do not attempt to reduce or eliminate our market exposure on these investments and could incur losses related to the impairment of these investments. Fluctuations in economic and market conditions could adversely affect the value of our investments, and

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

we could lose some of our investment portfolio. A total loss of an investment could adversely affect our results of operations and financial condition. For further information on these investments, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Table of Contents

ITEM 6. EXHIBITS

(a) List of exhibits

Exhibit No.	Description
10.1*	Citrix Systems, Inc. Executive Bonus Plan
31.1	Rule 13a-14(a) / 15d-14(a) Certification
31.2	Rule 13a-14(a) / 15d-14(a) Certification
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Indicates a management contract or any compensatory plan, contract or arrangement.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on this 7th day of September 2007.

CITRIX SYSTEMS, INC.

By: /s/ DAVID J. HENSHALL
David J. Henshall

*Senior Vice President and Chief Financial Officer
(Authorized Officer and Principal Financial Officer)*

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
10.1*	Citrix Systems, Inc. Executive Bonus Plan
31.1	Rule 13a-14(a) / 15d-14(a) Certification
31.2	Rule 13a-14(a) / 15d-14(a) Certification
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Indicates a management contract or any compensatory plan, contract or arrangement.