

CITRIX SYSTEMS INC  
Form 10-Q  
November 04, 2009  
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 September 30, 2009

or

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

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

Commission File Number 0-27084

**CITRIX SYSTEMS, INC.**

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

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

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

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

**851 West Cypress Creek Road**

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

**33309**  
*(Zip Code)*

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

**(954) 267-3000**

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

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

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

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

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

As of October 30, 2009 there were 182,979,777 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 September 30, 2009**

**CONTENTS**

	<b>Page Number</b>
PART I:	FINANCIAL INFORMATION
Item 1.	<u>Condensed Consolidated Financial Statements</u> 3
	<u>Condensed Consolidated Balance Sheets: September 30, 2009 and December 31, 2008 (Unaudited)</u> 3
	<u>Condensed Consolidated Statements of Income: Three and Nine Months ended September 30, 2009 and 2008 (Unaudited)</u> 4
	<u>Condensed Consolidated Statements of Cash Flows: Nine Months ended September 30, 2009 and 2008 (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> 37
Item 4.	<u>Controls and Procedures</u> 37
PART II:	OTHER INFORMATION
Item 1.	<u>Legal Proceedings</u> 37
Item 1A.	<u>Risk Factors</u> 37
Item 1B.	<u>Unresolved Staff Comments</u> 38
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 38
Item 5.	<u>Other Information</u> 38
Item 6.	<u>Exhibits</u> 39
	<u>Signature</u> 40

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

	September 30, 2009	December 31, 2008
	(In thousands, except par value)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 300,368	\$ 326,121
Short-term investments available-for-sale	278,299	249,175
Accounts receivable, net of allowances of \$6,683 and \$8,702 at September 30, 2009 and December 31, 2008, respectively	237,897	231,296
Inventories, net	8,793	11,226
Prepaid expenses and other current assets	100,756	84,530
Current portion of deferred tax assets, net	35,152	37,792
<b>Total current assets</b>	<b>961,265</b>	<b>940,140</b>
Long-term investments trading	39,103	37,919
Long-term investments available-for-sale	472,598	237,666
Property and equipment, net	251,174	254,334
Goodwill	900,294	904,504
Other intangible assets, net	228,536	270,222
Long-term portion of deferred tax assets, net	15,083	12,936
Other assets	45,921	36,585
	<b>\$ 2,913,974</b>	<b>\$ 2,694,306</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 47,220	\$ 46,672
Accrued expenses and other current liabilities	183,121	195,550
Current portion of deferred revenues	495,193	488,695
<b>Total current liabilities</b>	<b>725,534</b>	<b>730,917</b>
Long-term portion of deferred revenues	60,741	44,780
Other liabilities	835	744
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; 263,007 and 255,755 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	263	256
Additional paid-in capital	2,528,022	2,305,187
Retained earnings	1,489,936	1,387,067
Accumulated other comprehensive income (loss)	7,520	(15,852)
	<b>4,025,741</b>	<b>3,676,658</b>
	<b>(1,898,877)</b>	<b>(1,758,793)</b>

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

Less common stock in treasury, at cost (80,233 and 75,699 shares at September 30, 2009 and December 31, 2008, respectively)

Total stockholders' equity	<b>2,126,864</b>	1,917,865
	<b>\$ 2,913,974</b>	\$ 2,694,306

See accompanying notes.

Table of Contents

## CITRIX SYSTEMS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands, except per share information)			
<b>Revenues:</b>				
Product licenses	\$ 129,060	\$ 157,537	\$ 370,652	\$ 457,955
License updates	151,041	141,251	448,573	412,464
Online services	78,878	64,949	226,208	190,621
Technical services	42,063	35,156	117,495	106,617
Total net revenues	401,042	398,893	1,162,928	1,167,657
<b>Cost of net revenues:</b>				
Cost of product license revenues	13,191	10,555	36,191	34,477
Cost of services revenues	20,685	19,785	63,440	58,582
Amortization of product related intangible assets	11,542	11,948	35,064	35,517
Total cost of net revenues	45,418	42,288	134,695	128,576
Gross margin	355,624	356,605	1,028,233	1,039,081
<b>Operating expenses:</b>				
Research and development	68,865	72,500	215,062	217,995
Sales, marketing and services	168,233	169,072	498,952	504,761
General and administrative	57,254	61,866	175,295	192,570
Restructuring	61		22,827	
Amortization of other intangibles	5,111	5,468	15,268	16,875
Total operating expenses	299,524	308,906	927,404	932,201
Income from operations	56,100	47,699	100,829	106,880
Interest income	4,059	7,316	11,167	25,232
Interest expense	(85)	(143)	(243)	(253)
Other income (expense), net	1,651	(3,992)	939	(7,005)
Income before income taxes	61,725	50,880	112,692	124,854
Income taxes	8,302	1,731	9,823	6,678
Net income	\$ 53,423	\$ 49,149	\$ 102,869	\$ 118,176
<b>Earnings per share:</b>				
Basic	\$ 0.29	\$ 0.27	\$ 0.57	\$ 0.64
Diluted	\$ 0.29	\$ 0.26	\$ 0.56	\$ 0.63
<b>Weighted average shares outstanding:</b>				
Basic	182,531	182,228	181,541	183,764

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Diluted

**186,334**

185,666

**184,344**

187,886

See accompanying notes.

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

	Nine Months Ended September 30,	
	2009	2008
	(In thousands)	
<b>Operating Activities</b>		
Net income	\$ 102,869	\$ 118,176
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	50,332	52,392
Depreciation and amortization of property and equipment	51,991	37,554
Stock-based compensation expense	84,480	90,910
(Gain) loss on investments	(18)	3,921
Provision for doubtful accounts	1,473	1,443
Provision for product returns	2,666	1,848
Provision for inventory reserves	1,704	454
Tax effect of stock-based compensation	(4,392)	4,349
Excess tax benefit from exercise of stock options	(6,943)	(5,379)
Goodwill adjustment	5,393	
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	2,601	(1,488)
Other non-cash items	2,456	2,772
Total adjustments to reconcile net income to net cash provided by operating activities	191,743	188,776
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	(7,238)	3,394
Inventories	729	(3,478)
Prepaid expenses and other current assets	(26,816)	(18,442)
Other assets	(5,188)	678
Deferred tax assets, net	(135)	(12,718)
Accounts payable	(3,693)	(15,756)
Accrued expenses and other current liabilities	27,203	1,924
Deferred revenues	22,459	38,474
Other liabilities	128	(5,031)
Total changes in operating assets and liabilities, net of the effects of acquisitions	7,449	(10,955)
Net cash provided by operating activities	302,061	295,997
<b>Investing Activities</b>		
Purchases of available-for-sale investments	(810,624)	(498,893)
Proceeds from sales of available-for-sale investments	352,219	224,469
Proceeds from maturities of available-for-sale investments	201,292	271,951
Purchases of property and equipment	(56,800)	(87,559)
Purchases of other assets	(3,000)	
Cash paid for acquisitions, net of cash acquired	(2,120)	(2,139)
Cash paid for licensing agreements and product related intangible assets	(3,290)	(31,968)
Net cash used in investing activities	(322,323)	(124,139)
<b>Financing Activities</b>		
Proceeds from issuance of common stock under stock-based compensation plans	129,135	37,452
Excess tax benefit from exercise of stock options	6,943	5,379
Stock repurchases, net	(139,990)	(225,095)
Other	(95)	

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Payments on debt		(407)
Net cash used in by financing activities	<b>(4,007)</b>	(182,671)
Effect of exchange rate changes on cash and cash equivalents	<b>(1,484)</b>	5,142
Change in cash and cash equivalents	<b>(25,753)</b>	(5,671)
Cash and cash equivalents at beginning of period	<b>326,121</b>	223,749
Cash and cash equivalents at end of period	<b>\$ 300,368</b>	<b>\$ 218,078</b>

See accompanying notes.

---

**Table of Contents**

**CITRIX SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of Citrix Systems, Inc. (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. All adjustments, which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown, are of a normal recurring nature and have been reflected in the condensed consolidated financial statements and accompanying notes. In addition, the Company has evaluated subsequent events through November 4, 2009, the date of the issuance of this Form 10-Q. The results of operations for the periods presented are not necessarily indicative of the results expected for the full year or for any future period partially because of the seasonality of the Company's business. Historically, the Company's revenue for the fourth quarter of any year is typically higher than the revenue for the first quarter of the subsequent year. The information included in these condensed consolidated financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this report and the condensed consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

During the second quarter of 2009, the Company determined that it had incorrectly recorded acquisition-related payments to certain employees in connection with the October 2007 acquisition of XenSource, Inc. as purchase consideration and goodwill when it should have been recorded as compensation expense. Accordingly, in the second quarter of 2009, the Company recorded \$5.4 million of compensation expense related to this item, of which \$4.6 million related to prior periods, with a corresponding decrease to goodwill. As this adjustment was related to the correction of an error, the Company performed the analysis required by Staff Accounting Bulletin 99, *Materiality*, and Staff Accounting Bulletin 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*. Based on this analysis, the Company concluded that the effect of the error was not material to the prior fiscal years from both a quantitative and qualitative perspective. The error does not affect the quarter ended September 30, 2009 and is not anticipated to be material to the full fiscal year of 2009. In accordance with the authoritative guidance on interim reporting, the Company corrected and disclosed this error in the quarter ended June 30, 2009.

**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 September 30, 2009 and December 31, 2008 primarily consist of agency securities, corporate securities, municipal securities, government securities and commercial paper. Investments classified as available-for-sale are stated at fair value with unrealized gains and losses, net of taxes, reported in accumulated other comprehensive loss. Investments classified as trading securities are stated at fair value with unrealized gains and losses reported in earnings. The Company classifies its available-for-sale investments as current and non-current based on their actual remaining time to maturity. The Company does not recognize changes in the fair value of its available-for-sale investments in income unless a decline in value is considered other-than-temporary in accordance with the authoritative guidance. In April 2009, the Financial Accounting Standards Board (the FASB) amended the existing guidance on determining whether an impairment for investments in debt securities is other-than-temporary. The Company adopted the new guidance in the second quarter of 2009 and there was no impact to the Company's results of operations upon adoption.

The Company's investment policy is designed to limit exposure to any one issuer depending on credit quality. The Company uses information provided by third parties to adjust the carrying value of certain of its investments to fair value at the end of each period. Fair values are based on valuation models that use market quotes and, for certain investments, assumptions as to the creditworthiness of the entities issuing those

underlying instruments.

**Table of Contents**

**CITRIX SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*Inventory*

Inventories are stated at the lower of cost or market on an average cost method and primarily consist of finished goods as of September 30, 2009 and December 31, 2008.

*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 revenue recognition policies are in compliance with the FASB's authoritative guidance governing software revenue recognition and because the Company's Online Services provide applications as an online service, the Company also follows the provisions of Securities and Exchange Commission Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*.

The Company recognizes revenue when all of the following criteria are met: persuasive evidence of the arrangement exists; delivery has occurred or the service has been provided and the Company has no remaining obligations; the fee is fixed or determinable; and collectability is probable. Net revenues include the following categories: Product Licenses, License Updates, Online Services and Technical Services. Product Licenses revenues primarily represent fees related to the licensing of the Company's software and hardware appliance products. These revenues are reflected net of sales allowances, cooperative advertising agreements and provisions for returns. License Updates revenues consist of fees related to the Subscription Advantage program that are recognized ratably over the term of the contract, which is typically 12-24 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, which are recognized ratably over the contract term. In addition, Online Services revenues may also include set-up fees, which are recognized ratably over the contract term or the expected customer life, whichever is longer. Technical Services revenues are comprised of fees from technical support services, 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 software products bundled with a one year contract for license updates that provide the end-user with unspecified 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 purchase. Technical support, product training or consulting services may be purchased separately by the customer. Online services are sold separately. The Company allocates revenue to license updates and any other undelivered elements of the arrangement based on vendor specific objective evidence (VSOE) of fair value of each element and such amounts are deferred until the applicable delivery criteria and other revenue recognition criteria described above have been met. The balance of the revenues, net of any discounts inherent in the arrangement, is recognized at the outset of the arrangement using the residual method as the product licenses are delivered.

In the normal course of business, the Company is not obligated to accept product returns from its distributors under any conditions, unless the product item is defective in manufacture, but the Company does provide most of its distributors with stock balancing and price protection rights. Stock balancing rights permit distributors to return products to the Company up to the forty-fifth day of the fiscal quarter, subject to ordering an equal dollar amount of its other products prior to the last day of the same fiscal quarter. Price protection rights require that the Company grants retroactive price adjustments for inventories of its products held by distributors or resellers if it lowers its prices for such products. Product items returned to the Company under the stock balancing program must be in new, unused and unopened condition. The Company establishes provisions for estimated returns, as well as other sales allowances, concurrently with the recognition of revenue. Allowances for estimated product returns amounted to approximately \$1.5 million and \$1.6 million at September 30, 2009 and December 31, 2008, respectively.

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

### *Accounting for Stock-Based Compensation Plans*

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

**Table of Contents****CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****3. EARNINGS PER SHARE**

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

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

	<b>Three Months ended September 30,</b>		<b>Nine Months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Numerator:</b>				
Net income	<b>\$ 53,423</b>	\$ 49,149	<b>\$ 102,869</b>	\$ 118,176
<b>Denominator:</b>				
Denominator for basic earnings per share	weighted-average shares outstanding		<b>182,531</b>	182,228
Effect of dilutive employee stock awards			<b>3,803</b>	3,438
Denominator for diluted earnings per share	weighted-average shares outstanding		<b>186,334</b>	185,666
Denominator for diluted earnings per share	weighted-average shares outstanding		<b>184,344</b>	187,886
Basic earnings per share	<b>\$ 0.29</b>	\$ 0.27	<b>\$ 0.57</b>	\$ 0.64
Diluted earnings per share	<b>\$ 0.29</b>	\$ 0.26	<b>\$ 0.56</b>	\$ 0.63
Anti-dilutive weighted-average shares	<b>12,151</b>	26,799	<b>18,704</b>	24,126

**4. ACQUISITIONS***2008 Acquisition*

In October 2008, the Company acquired all of the issued and outstanding securities of Vapps, Inc. ( Vapps ), a privately held Delaware corporation headquartered in Hoboken, New Jersey. Vapps offers high quality audio conferencing solutions to small and medium sized businesses and enterprise and service provider markets that complement the Company's online services products. The total consideration for this transaction was approximately \$26.6 million in cash, including \$1.0 million in transaction costs. In addition, if certain financial and operational milestones are achieved by the Vapps business, contingent consideration of up to approximately \$4.4 million may be earned. The sources of funds for this transaction consisted of available cash and investments. In addition, the Company assumed approximately 0.1 million unvested stock options upon the closing of the transaction. Revenues from Vapps are included in the Company's Online Services revenue. The Vapps results of operations have been included in the Company's consolidated results of operations beginning after the date of its acquisition. In connection with the acquisition of Vapps, the Company allocated \$19.5 million to goodwill, \$8.2 million to product related technologies and \$2.6 million to other intangible assets. The goodwill related to the acquisition of Vapps was assigned to the Company's Online Services segment and is not deductible for tax purposes. See Note 9 for segment information.

*Purchase Accounting for Acquisitions*

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

The fair values used in determining the purchase price allocation for certain intangible assets for the Company's acquisition was based on estimated discounted future cash flows, royalty rates and historical data, among other information. Purchased in-process research and development (IPR&D) of \$1.1 million was expensed immediately upon the closing of the acquisition of Vapps because 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 IPR&D 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 ranged from 21% to 25%. The rate of return determination included a factor that takes into account the uncertainty surrounding the successful development of the IPR&D.

**Table of Contents****CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****5. INVESTMENTS***Available-for-sale Investments*

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

Description of the Securities	September 30, 2009			Fair Value	December 31, 2008			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Agency securities	\$ 448,526	\$ 1,753	\$ (644)	\$ 449,635	\$ 258,574	\$ 2,291	\$ (1,074)	\$ 259,791
Corporate securities	250,402	1,391	(6,140)	245,653	164,255	295	(14,775)	149,775
Municipal securities	42,275	38		42,313	39,646	132	(17)	39,761
Government securities	11,344	170	(17)	11,497	28,450	263	(52)	28,661
Commercial paper	1,799			1,799	4,274	9		4,283
Money market funds					1,976			1,976
Other					2,594			2,594
Total	\$ 754,346	\$ 3,352	\$ (6,801)	\$ 750,897	\$ 499,769	\$ 2,990	\$ (15,918)	\$ 486,841

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

For the three and nine months ended September 30, 2009, the Company received proceeds from sales of available-for-sale investments of \$105.1 million and \$352.2 million, respectively, and for the three and nine months ended September 30, 2008, it received proceeds from the sales of available-for-sale investments of \$90.9 million and \$224.5 million, respectively. For the three and nine months ended September 30, 2009, the Company had realized gains on the sales of available-for-sale investments of \$0.3 million and \$0.6 million, respectively. The Company had realized losses on the sales of available-for-sale investments of \$0.1 million during both the three and nine months ended September 30, 2009. For the three and nine months ended September 30, 2008, the Company had realized gains on the sales of available-for-sale investments of \$0.1 million and \$0.4 million, respectively. The Company had realized losses on the sales of available-for-sale investments of \$0.1 million during both the three and nine months ended September 30, 2008. All realized gains and losses related to the sales of available-for-sale investments are included in other income (expense), net, in the accompanying condensed consolidated statements of income.

The average remaining maturities of the Company's short-term and long-term available-for-sale investments at September 30, 2009 were approximately five months and 11 years, respectively.

*Unrealized Losses on Available-for-Sale Investments*

The following table shows the gross unrealized losses and fair value of the Company's available-for-sale investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of September 30, 2009 (in thousands):

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Description of the Securities	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	\$ 33,061	\$ (67)	\$ 47,934	\$ (6,073)	\$ 80,995	\$ (6,140)
Agency securities	73,283	(494)	8,923	(150)	82,206	(644)
<b>Total</b>	<b>\$ 106,344</b>	<b>\$ (561)</b>	<b>\$ 56,857</b>	<b>\$ (6,223)</b>	<b>\$ 163,201</b>	<b>\$ (6,784)</b>

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

The Company's unrealized loss in corporate bonds is primarily comprised of an investment issued by AIG Matched Funding Corporation (the AIG Capped Floater) with a face value of \$50.0 million, which matures in September 2011. American International Group, Inc. (AIG), as the issuer's parent, provided a guarantee of the security at the time of purchase in September 2006. As of September 30, 2009, the unrealized loss of \$5.8 million, which is included in accumulated other comprehensive loss, was primarily caused by AIG experiencing liquidity challenges which were reportedly precipitated by problems in the capital markets. AIG's lack of liquidity triggered a downgrade in the credit ratings for its long-term issues to A- and A3 by two rating agencies on October 3, 2008. As a result of AIG's liquidity challenges, in November 2008, the Federal Reserve Bank of New York (FRBNY) intervened with a five-year credit facility to help stabilize AIG and its effect on the overall market. In addition, on March 2, 2009, AIG announced that further actions were taken in cooperation with the U.S. Department of Treasury and the FRBNY to provide AIG with additional financial stability. As of the date of this report, AIG has not been reported to have defaulted on capital repayments to holders of its recently matured debt and it continues to pay interest on the Company's AIG Capped Floater. Because the Company does not intend to sell the AIG Capped Floater and it is more likely than not that it will not be required to sell the security before the recovery of its amortized cost basis, which may not occur until maturity, it does not consider the security to be other-than-temporarily impaired.

If AIG's financial position deteriorates, the Company may be required to further adjust the carrying value of the AIG Capped Floater and potentially recognize an impairment charge for an other-than-temporary decline in the fair value of the investment. Based on the Company's available cash and other investments, it does not currently anticipate that the lack of liquidity caused by holding the AIG Capped Floater to recovery will have a material adverse effect on its financial position.

*Trading Investments*

As of September 30, 2009, the Company held municipal auction rate securities, the majority of which are triple-A rated, with an aggregate par value of approximately \$45.2 million, whose underlying assets are generally student loans that are substantially backed by the federal government under the Federal Family Education Loan Program through investment accounts managed by UBS Financial Services, Inc. (UBS). The market for municipal auction rate securities in the Company's portfolio began experiencing auction failures on February 13, 2008 and there have been no successful auctions for the securities held in its portfolio since the failures began. In November 2008, the Company formally accepted the terms of a settlement (the Settlement) from UBS. Upon accepting the terms of the Settlement, the Company received an enforceable, non-transferrable right (the Put Option) that enables it to sell its auction rate securities back to UBS during the period between June 30, 2010 and July 2, 2012 at par value. Accordingly, the Company recorded the fair value of the Put Option in other assets in the accompanying condensed consolidated balance sheet and contemporaneously made the fair value election as permitted by the authoritative guidance which states that companies may elect the fair value option for eligible financial assets. Subsequently, the Company records changes in the fair value of the Put Option in earnings. During the nine months ended September 30, 2009, the Company recorded a gain of \$1.2 million related to its investments in auction rate securities and a corresponding loss of \$1.3 million related to the Put Option, both of which are included in other income (expense), net, in the accompanying condensed consolidated statements of income.

**6. FAIR VALUE MEASUREMENTS**

On January 1, 2008, the Company adopted the authoritative guidance for fair value measurements for financial assets and financial liabilities. The authoritative guidance, which, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as the exit price, representing the amount that would either be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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

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

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

**Table of Contents****CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***Assets and Liabilities Measured at Fair Value on a Recurring Basis*

	As of September 30, 2009	Quoted Prices In Active Markets for Identical Assets (Level 1)  (in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments- available-for-sale	\$ 278,299	\$ 278,299	\$	\$
Prepaid expenses and other current assets	15,221		15,221	
Other assets	6,052			6,052
Long-term investments- trading	39,103			39,103
Long-term investments- available-for-sale	472,598	428,367		44,231
Accrued expenses and other current liabilities	2,547		2,547	

The Company measures its cash flow hedges, which are classified as prepaid expenses and other current assets and accrued expenses and other current liabilities, at fair value based on indicative prices in active markets and generally measures its investments in available-for-sale securities at fair value based on quoted prices in active markets for identical securities.

Due to the illiquidity in the municipal auction rate securities market caused by failed auctions, the Company's valuation technique for certain of its municipal auction rate securities was to measure such securities at fair value using a discounted cash flow model. In its discounted cash flow model, the Company used several assumptions to derive a fair value for its investments in municipal auction rate securities, including a discount rate based on the credit quality of the underlying investments and a factor to further discount the investments for the illiquidity currently present in the market for these securities. Accordingly, these trading investments are included in Level 3. Also included in Level 3 is the Put Option. In order to determine the fair value of the Put Option, the Company measured the differential between the aggregate par value of its auction rate securities and their fair value as of the reporting date and applied a discount rate that considers both the time period between the reporting date and the first date the Company is able to exercise its right to put the auction rate securities to UBS per the terms of the Settlement along with considerations of the credit worthiness of UBS.

During 2008, the Company measured its AIG Capped Floater using indicative pricing for another AIG security with similar terms (the Referenced Security) which had regular trading activity, a Level 2 observation. During 2009, trading in the Referenced Security significantly decreased and other floating rate AIG debt securities with regular trading activity were too close to their maturities to be used to establish fair value for the AIG Capped Floater. Therefore, in order to measure the AIG Capped Floater at fair value, the Company used a discounted cash flow model which utilized a two-year swap rate, which is the rate at which LIBOR could be fixed for the remaining two years until maturity of the security, to derive the cash flows from the AIG Capped Floater. The Company then discounted those cash flows at a rate reflecting the market risk inherent in holding an AIG security with a similar maturity as evidenced by pricing in the markets. Since utilizing a discounted cash flow model required the Company to make assumptions that were not directly or indirectly observable regarding the AIG Capped Floater's fair value during 2009, it was transferred to Level 3 and is included in the table below as a transfer to Level 3.

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

	Put Option	Long-term Investments (In thousands)	Total
Balance at December 31, 2008	\$ 7,378	\$ 37,919	\$ 45,297

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

Transfers to Level 3		44,231	44,231
Total realized (losses) gains included in earnings	(1,326)	1,185	(141)
Balance at September 30, 2009	\$ 6,052	\$ 83,335	\$ 89,387

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

### *Additional Disclosures Regarding Fair Value Measurements*

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair value due to the short maturity of these items. The Company's investments classified as available-for-sale securities are carried at fair value on the accompanying consolidated balance sheets based primarily on quoted market prices for such financial instruments. See Note 5 for more information regarding the Company's available-for-sale investments.

**Table of Contents****CITRIX SYSTEMS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****7. STOCK-BASED COMPENSATION**

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 September 30, 2009, the Company had two stock-based compensation plans under which it was granting stock options and non-vested stock units. The Company is currently granting stock-based awards from its 2005 Equity Incentive Plan (as amended, the 2005 Plan) and its 2005 Employee Stock Purchase Plan (the 2005 ESPP). In connection with certain of the Company's acquisitions, the Company has assumed several plans from the acquired companies. The Company's Board of Directors has provided that no new awards will be granted under the Company's acquired stock plans. The Company's superseded and expired stock plans include the Amended and Restated 1995 Stock Plan, Second Amended and Restated 2000 Director and Officer Stock Option and Incentive Plan, Second Amended and Restated 1995 Non-Employee Director Stock Option Plan and Third Amended and Restated 1995 Employee Stock Purchase Plan. Awards previously granted under these plans and still outstanding typically expire ten years from the date of grant and will continue to be subject to all the terms and conditions of such plans, as applicable.

Under the terms of the 2005 Plan, the Company is authorized to grant incentive stock options (ISOs), non-qualified stock options (NSOs), non-vested stock, non-vested stock units, stock appreciation rights (SARs), and performance units and to make stock-based awards to full and part-time employees of the Company and its subsidiaries or affiliates, where legally eligible to participate, as well as consultants and non-employee directors of the Company. Currently, the 2005 Plan provides for the issuance of a maximum of 32,100,000 shares of common stock. Under the 2005 Plan, ISOs must be granted at exercise prices no less than fair market value on the date of grant, except for ISOs granted to employees who own more than 10% of the Company's combined voting power, for which the exercise prices must be no less than 110% of the fair market value at the date of grant. NSOs and SARs must be granted at no less than fair market value on the date of grant, or in the case of SARs in tandem with options, at the exercise price of the related option. Non-vested stock awards may be granted for such consideration in cash, other property or services, or a combination thereof, as determined by the Company's Compensation Committee of its Board of Directors. All stock-based awards are exercisable upon vesting. The Company's policy is to recognize compensation cost for awards with only service conditions and a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. As of September 30, 2009, there were 38,394,378 shares of common stock reserved for issuance pursuant to the Company's stock-based compensation plans and the Company had authorization under its 2005 Plan to grant 12,907,691 additional stock-based awards.

Under the 2005 ESPP, all full-time and certain part-time employees of the Company are eligible to purchase common stock of the Company twice per year at the end of a six-month payment period (a Payment Period). During each Payment Period, eligible employees who so elect may authorize payroll deductions in an amount no less than 1% nor greater than 10% of his or her base pay for each payroll period in the Payment Period. At the end of each Payment Period, the accumulated deductions are used to purchase shares of common stock from the Company up to a maximum of 12,000 shares for any one employee during a Payment Period. Shares are purchased at a price equal to 85% of the fair market value of the Company's common stock on the last business day of a Payment Period. Employees who, after exercising their rights to purchase shares of common stock in the 2005 ESPP, would own shares representing 5% or more of the voting power of the Company's common stock, are ineligible to participate under the 2005 ESPP. The 2005 ESPP provides for the issuance of a maximum of 10,000,000 shares of common stock. As of September 30, 2009, 1,544,040 shares had been issued under the 2005 ESPP. The Company recorded stock-based compensation costs related to the 2005 ESPP of \$0.5 million and \$1.6 million for the three and nine months ended September 30, 2009, respectively.

*Stock-Based Compensation*

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

Income Statement Classifications	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Cost of services revenues	\$ 371	\$ 498	\$ 1,192	\$ 1,426

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Research and development	<b>14,332</b>	15,460	<b>42,876</b>	44,709
Sales, marketing and services	<b>8,740</b>	8,539	<b>24,078</b>	24,145
General and administrative	<b>4,449</b>	5,425	<b>16,334</b>	20,630
Total	<b>\$ 27,892</b>	<b>\$ 29,922</b>	<b>\$ 84,480</b>	<b>\$ 90,910</b>

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

Options granted from the 2005 Plan typically have a five-year life and vest over three years at a rate of 33.3% of the shares underlying the option one year from date of grant and at a rate of 2.78% monthly thereafter. The Company currently uses the Black-Scholes option pricing model to determine the fair value of its stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price, as well as assumptions regarding a number of complex and subjective variables. These variables include the Company's expected stock price, volatility over the term of the awards, actual employee exercise behaviors, risk-free interest rate and expected dividends. For purposes of valuing stock options, the Company determined the expected volatility factor by considering the implied volatility in two-year market-traded options of the Company's common stock based on third party volatility quotes in accordance with the provisions of 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. The Company also periodically analyzes its historical pattern of option exercises based on certain demographic characteristics and determined that there were no meaningful differences in option exercise activity based on the demographic characteristics. The Company does not intend to pay dividends on its common stock in the foreseeable future. Accordingly, the Company used a dividend yield of zero in its option pricing model.

The weighted average fair value of stock options granted during the three months ended September 30, 2009 was \$9.21. The total intrinsic value of options exercised during the three and nine months ended September 30, 2009 was \$34.2 million and \$68.9 million, respectively. The intrinsic value is calculated as the difference between the market value on the date of exercise and the exercise price of the shares. As of September 30, 2009, there was \$93.3 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 1.54 years.

The assumptions used to value option grants are as follows:

	<b>Three Months Ended September 30, 2009</b>	<b>Three Months Ended September 30, 2008</b>	<b>Nine Months Ended September 30, 2009</b>	<b>Nine Months Ended September 30, 2008</b>
Expected volatility factor	<b>0.35</b>	0.43	<b>0.35 0.44</b>	0.39 0.43
Approximate risk free interest rate	<b>1.61%</b>	2.75%	<b>1.31% - 1.61%</b>	2.47% 2.84%
Expected term (in years)	<b>3.27</b>	3.37	<b>3.17 3.37</b>	3.35 3.56
Expected dividend yield	<b>0%</b>	0%	<b>0%</b>	0%

*Non-vested Stock*

The Company assumed shares of non-vested stock in conjunction with its acquisition of XenSource, Inc. Upon assumption, these shares were reset to vest over three years at a rate of 33.3% of the shares one year from date of grant and at a rate of 2.78% monthly thereafter based on service. As of September 30, 2009, the number of non-vested shares granted and outstanding was 451,998 and there was \$17.4 million of total unrecognized compensation cost related to non-vested stock. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 1.08 years.

*Non-vested Stock Units*

Annually, the Company awards 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 and is based on achievement of a specific corporate financial performance goal. If the performance goal is less than 90% attained, then no non-vested stock units will be issued pursuant to

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

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. The Company is required to estimate the attainment that will be achieved related to the defined performance goals and the number of non-vested stock units that will ultimately be awarded in order to recognize compensation expense over the vesting period. If the performance goal is met, the non-vested stock units vest 33.33% on each anniversary subsequent to the date of the award. Each non-vested stock unit, upon vesting, represents the right to receive one share of the Company's common stock. If the performance goals are not met, no compensation cost will ultimately be recognized in that period and any previously recognized compensation cost will be reversed. During 2008, the performance goal was achieved within the range of the graduated slope and there was no material adjustment to compensation cost related to non-vested stock units granted to executives.

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

Annually, the Company also awards vice presidents and senior executives non-vested stock units from the 2005 Plan that vest based on service. 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 all of 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 September 30, 2009, the number of non-vested stock units outstanding was 916,574 and there was \$14.2 million of total unrecognized compensation cost related to non-vested stock units. The unrecognized cost is expected to be recognized over a weighted-average period of 1.82 years.

*Long-term Incentive Plan*

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

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

Expected volatility factor	<b>0.30 - 0.46</b>
Risk free interest rate	<b>1.23%</b>
Expected dividend yield	<b>0%</b>

The range of expected volatilities utilized was based on the historical volatilities of the Company's Stock, the S&P 500 and the IGM. The Company chose to use historical volatility to value these awards because historical stock prices were used to develop the correlation coefficients between Citrix and each of the S&P 500 and the IGM in order to model stock price movements. The volatilities used were calculated over the most recent 2.67 year period, which was the remaining term of the performance period at the date of grant. The risk free interest rate was based on the implied yield available on U.S. Treasury zero-coupon issues with remaining terms equivalent to the remaining performance period. 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 model.

The estimated fair value of each award was \$24.16 as of the date of grant. As of September 30, 2009, the number of restricted stock units granted pursuant to this award was 175,667 and there was \$3.7 million of total unrecognized compensation cost related to restricted stock units. The unrecognized cost is expected to be recognized over 2.33 years.

**8. LONG-TERM DEBT**

Effective on August 9, 2005, the Company entered into a revolving credit facility (the Credit Facility) with a group of financial institutions (the Lenders). Effective September 27, 2006, the Company entered into an amendment and restatement of its Credit Facility (the Amendment). The Amendment decreased the overall range of interest rates the Company must pay on amounts outstanding on the Credit Facility and lowered the

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

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, as amended, currently bears interest at 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

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

adjusted earnings before interest, taxes, depreciation and amortization ( EBITDA ) as defined in the agreement. In addition, the Company is required to pay a quarterly facility fee ranging from 0.08% to 0.20% based on the aggregate amount available under the Credit Facility, as amended, and the level of the Company's total debt and its adjusted EBITDA. Borrowings under the Credit Facility, as amended, are guaranteed by the Company and certain of the Company's U.S. and foreign subsidiaries, which guarantees are secured by a pledge of shares of certain foreign subsidiaries. As of September 30, 2009, there were no amounts outstanding under the Credit Facility, as amended.

The Credit Facility, as amended, contains customary default provisions, and the Company must comply with various financial and non-financial covenants. The financial covenants consist of a minimum interest coverage ratio and a maximum consolidated leverage ratio. The primary non-financial covenants contain certain limits on the Company's ability to pay dividends, conduct certain mergers or acquisitions, make certain investments and loans, incur future indebtedness or liens, alter the Company's capital structure or sell stock or assets. As of September 30, 2009, the Company was in compliance with all covenants of the Credit Facility.

**9. 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 Desktop Solutions, comprised primarily of Application Virtualization revenues, and Datacenter and Cloud Solutions, comprised primarily of Application Networking revenues, and related technical services in the Americas, Europe, the Middle East and Africa ( EMEA ) and Asia-Pacific regions and from its online services sold by its Online Services division. These three geographic regions and the Online Services 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 maker ( CODM ) evaluates the Company's performance based primarily on profitability in the geographic locations in which the Company operates and separately evaluates the performance of its Online Services 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 Online Services 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 Desktop Solutions and Datacenter and Cloud Solutions, restructuring charges, stock-based compensation costs, amortization of product related technology, amortization of other intangible assets, interest, corporate expenses and income taxes. 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net revenues:				
Americas (1)	\$ 177,843	\$ 168,898	\$ 507,386	\$ 493,736
EMEA (2)	112,366	131,487	337,721	385,902
Asia-Pacific	31,955	33,559	91,613	97,398
Online Services division	78,878	64,949	226,208	190,621
Consolidated	\$ 401,042	\$ 398,893	\$ 1,162,928	\$ 1,167,657
Segment profit:				

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Americas (1)	\$ 102,703	\$ 88,207	\$ 277,408	\$ 245,663
EMEA (2)	72,403	84,528	216,357	247,226
Asia-Pacific	5,150	6,272	16,543	17,964
Online Services division	25,335	20,087	67,550	56,329
Unallocated expenses (3):				
Amortization of intangible assets	(16,653)	(17,416)	(50,332)	(52,392)
Research and development	(62,724)	(66,065)	(194,859)	(198,717)
Restructuring	(61)		(22,827)	
Net interest and other income	5,625	3,181	11,863	17,974
Other corporate expenses	(70,053)	(67,914)	(209,011)	(209,193)
Consolidated income before income taxes	\$ 61,725	\$ 50,880	\$ 112,692	\$ 124,854

- (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.

Table of Contents

## CITRIX SYSTEMS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In addition to evaluating the Company's profitability by geography, including the Company's Online Services division, its CODM also evaluates 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 Online Services division's products, for the following periods (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net revenues:				
Application Virtualization revenues	\$ 249,964	\$ 273,056	\$ 734,324	\$ 805,631
Citrix Online Division revenues	78,878	64,949	226,208	190,621
Application Networking revenues	54,355	47,450	156,374	139,398
Other	17,845	13,438	46,022	32,007
Total net revenues	\$ 401,042	\$ 398,893	\$ 1,162,928	\$ 1,167,657

**10. RESTRUCTURING**

During the first quarter of 2009, the Company announced a restructuring program and reduced its headcount by approximately 450 full-time positions. The restructuring program is expected to be substantially completed by the end of 2009.

Restructuring charges related to the reduction of the Company's headcount and non-cancelable lease costs related to the consolidation and exiting of excess facilities by segment consists of the following (in thousands):

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
Americas	\$	20	\$	13,219
EMEA		106		7,460
Asia-Pacific		(7)		1,617
Online Services division		(58)		531
Total restructuring charges	\$	61	\$	22,827

*Restructuring accruals*

As of September 30, 2009, the \$1.1 million in outstanding restructuring liability primarily relates to non-cancelable lease costs related to the consolidation of excess facilities that the Company expects to pay over the lives of the related obligations through fiscal 2012. The Company expects to consolidate additional excess facilities during the remainder of the year and as a result estimates that it will incur an additional \$4.0 million to \$4.5 million in expense primarily in the Americas.

The activity in the Company's restructuring accruals for the nine months ended September 30, 2009 is summarized as follows (in thousands):

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

	<b>Total</b>
Balance at January 1, 2009	<b>\$</b>
Employee severance and related costs	<b>21,315</b>
Non-cancelable lease costs and other charges	<b>1,327</b>
Impairment of tenant improvement, furniture, and fixed assets	<b>185</b>
Payments	<b>(21,730)</b>
Reversal of previous charges	
Balance at September 30, 2009	<b>\$ 1,097</b>

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

As of September 30, 2009, restructuring accruals by segment consisted of the following (in thousands):

	<b>Total</b>
Americas	<b>\$ 921</b>
EMEA	<b>176</b>
Asia-Pacific	
Online services division	
<b>Total restructuring accruals</b>	<b>\$ 1,097</b>

**11. DERIVATIVE FINANCIAL INSTRUMENTS***Cash Flow Hedges*

As of September 30, 2009, the Company's derivative assets and liabilities resulted from cash flow hedges related to its forecasted operating expenses transacted in local currencies. A substantial portion of the Company's overseas expenses are and will continue to be transacted in local currencies. To protect against fluctuations in operating expenses and the volatility of future cash flows caused by changes in currency exchange rates, the Company has established a program that uses foreign exchange forward contracts to hedge its exposure to these potential changes. The terms of these instruments, and the hedged transactions to which they relate, generally do not exceed 12 months and the maximum term is 18 months.

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

The total cumulative unrealized gain (loss) on cash flow derivative instruments was \$11.6 million and \$(3.0) million at September 30, 2009 and December 31, 2008, respectively, and is included in accumulated other comprehensive loss in the accompanying condensed consolidated balance sheets. The net unrealized gain as of September 30, 2009 is expected to be recognized in income over the next twelve months at the same time the hedged items are recognized in income.

As of September 30, 2009, the Company had the following net notional foreign currency forward contracts outstanding (in thousands):

<b>Foreign Currency</b>	<b>Currency Denomination</b>
Australian dollars	AUD 34,944
British pounds sterling	GBP 26,859
Canadian dollars	CAD 5,989
Euro	EUR 45,453
Danish krone	DKK 12,207

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Hong Kong dollars	HKD 71,115
Indian rupees	INR 595,180
Japanese yen	JPY 1,244,701
Singapore dollars	SGD 13,244
Swiss francs	CHF 19,999
<i>Derivatives not Designated as Hedges</i>	

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

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

A substantial portion of the Company's overseas assets and liabilities are and will continue to be denominated in local currencies. To protect against fluctuations in earnings caused by changes in currency exchange rates when remeasuring the Company's balance sheet, it utilizes foreign exchange forward contracts to hedge its exposure to this potential volatility. There were no assets or liabilities related to derivatives not designated as hedges as of September 30, 2009 and December 31, 2008.

*Fair Values of Derivative Instruments*

Derivatives Designated as	Asset Derivatives				Liability Derivatives			
	September 30, 2009		December 31, 2008		(In thousands) September 30, 2009		December 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Hedging Instruments</b>					Accrued expenses and other current liabilities		Accrued expenses and other current liabilities	
Foreign currency forward contracts	Prepaid and other current assets	\$ 15,221	Prepaid and other current assets	\$ 23,308		\$ 2,547		\$ 27,630

*The Effect of Derivative Instruments on Financial Performance*

Derivatives in Cash Flow	For the Three Months ended September 30, (In thousands)				
	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Effective Portion)		Location of Loss Reclassified from Accumulated Other Comprehensive Income (Loss) into	Amount of Loss Reclassified from Accumulated Other Comprehensive Loss (Effective Portion)	
	2009	2008	(Effective Portion)	2009	2008
<b>Hedging Relationships</b>					
Foreign currency forward contracts	\$ 4,442	\$ (16,933)	Operating expenses	\$ (376)	\$ (4,057)

Derivatives in Cash Flow	For the Nine Months ended September 30, (In thousands)				
	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Effective Portion)		Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss (Effective Portion)	
	2009	2008	(Effective Portion)	2009	2008
<b>Hedging Relationships</b>					
Foreign currency forward contracts	\$14,517	\$(15,624)	Operating expenses	\$4,746	\$(11,490)

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

Table of Contents

## CITRIX SYSTEMS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Derivatives Not Designated as Hedging Instruments	For the Three Months ended September 30, (In thousands)			
	Location of Loss Recognized in Income on Derivative	Amount of Loss Recognized in Income on Derivative		
		2009	2008	
Foreign currency forward contracts	Other income (expense), net	\$ (138)	\$ (439)	

Derivatives Not Designated as Hedging Instruments	For the Nine Months ended September 30, (In thousands)			
	Location of (Loss) Gain Recognized in Income on Derivative	Amount of (Loss) Gain Recognized in Income on Derivative		
		2009	2008	
Foreign currency forward contracts	Other income (expense), net	\$ (2,428)	\$ 1,017	

**12. COMPREHENSIVE INCOME**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	\$ 53,423	\$ 49,149	\$ 102,869	\$ 118,176
Other comprehensive income:				
Change in unrealized gain (loss) on available-for-sale securities	8,670	(24,607)	8,855	(24,822)
Net change due to derivative instruments	4,442	(16,933)	14,517	(15,624)
Comprehensive income	\$ 66,535	\$ 7,609	\$ 126,241	\$ 77,730

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

	September 30, 2009	December 31, 2008
Unrealized loss on available-for-sale securities	\$ (4,043)	\$ (12,897)
Unrealized gain (loss) on derivative instruments	11,563	(2,955)
Accumulated other comprehensive income (loss)	\$ 7,520	\$ (15,852)

**13. INCOME TAXES**

The Company's net unrecognized tax benefits totaled approximately \$29.7 million and \$28.3 million as of September 30, 2009 and December 31, 2008, respectively. There were no amounts included in the balance at September 30, 2009 of tax positions, which would not affect the annual effective tax rate, and approximately \$0.3 million of accrued interest on tax positions, which is included in income tax expense.

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

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

During the third quarter of 2009, the Internal Revenue Service ( IRS ) concluded its examination of the Company s income tax returns for 2004 and 2005 and issued a final Revenue Agent s Report (the RAR ). The Company agreed with all of the adjustments contained in the RAR, with the exception of the transfer pricing and consequential adjustments relating to the intercompany transfer of certain intellectual property in earlier tax years. The RAR asserts income tax deficiencies related to the transfer pricing and consequential adjustments of approximately \$81.3 million for tax years 2004 and 2005, excluding interest. In addition, the transfer pricing and consequential adjustments to the Company s 2004 and 2005 tax years would impact its income tax liabilities in tax years subsequent to 2005. The Company disagrees with the adjustments and has filed a protest, which will cause the matter to be referred to the Appeals Division of the IRS. The Company intends to contest the adjustments through the IRS appeals process and the courts, if necessary. There can be no assurance, however, that this matter, or any future tax examinations involving similar assertions, will be

**Table of Contents**

**CITRIX SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

resolved in the Company's favor, and an adverse outcome of this matter could have a material adverse effect on the Company's results of operations and financial condition. Regardless of whether this matter is resolved in the Company's favor, the final resolution of this matter could be expensive and time-consuming to defend.

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

The Company is required to estimate its income taxes in each of the jurisdictions in which it operates as part of the process of preparing its condensed consolidated financial statements. At September 30, 2009, the Company had approximately \$50.2 million in deferred tax assets. The authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company reviews deferred tax assets periodically for recoverability and makes estimates and judgments regarding the expected geographic sources of taxable income and gains from investments, as well as tax planning strategies in assessing the need for a valuation allowance.

The Company maintains certain operational and administrative processes in overseas subsidiaries and its foreign earnings are taxed at lower foreign tax rates. The Company does not expect to remit earnings from its foreign subsidiaries. The Company's effective tax rate was approximately 13.5% and 3.4% for the three months ended September 30, 2009 and 2008, respectively, and 8.7% and 5.3% for the nine months ended September 30, 2009 and 2008, respectively.

**14. 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 \$2.1 billion. The Company may use the approved dollar authority to repurchase stock at any time until the approved amount is exhausted. The objective of the Company's stock repurchase program is to improve stockholders' returns. At September 30, 2009, approximately \$236.9 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock. A portion of the funds used to repurchase stock over the course of the program was provided by proceeds from employee stock option exercises and the related tax benefit.

The Company is authorized to make open market purchases of its common stock using general corporate funds. Additionally, from time to time, the Company has 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 or at the end of the term of the agreement or the receipt of either stock or cash at the maturity of the agreement, depending on market conditions.

During the three months ended September 30, 2009, the Company expended approximately \$75.0 million on open market purchases, repurchasing 2,109,030 shares of outstanding common stock at an average price of \$35.56. In addition, as of September 30, 2009, the Company did not have any prepaid notional amounts remaining under its structured stock repurchase programs and it did not make any up-front payments to financial institutions related to structured stock repurchase agreements.

During the nine months ended September 30, 2009, the Company expended approximately \$140.0 million on open market purchases, repurchasing 4,531,330 shares of outstanding common stock at an average price of \$30.89. In addition, during the period, the Company did not make any up-front payments to financial institutions related to structured stock repurchase agreements.

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

During the three months ended September 30, 2008, the Company took delivery of 639,899 shares at an average price of \$29.13 per share from its structured repurchase agreements and it expended approximately \$50.0 million on open market purchases,

---

**Table of Contents**

**CITRIX SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

repurchasing 1,711,758 shares of outstanding common stock at an average price of \$29.18. In addition, during the three months ended September 30, 2008 the Company made one up-front payment of \$25.0 million to a certain financial institution related to a structured stock repurchase agreement.

During the nine months ended September 30, 2008, the Company took delivery of 3,548,544 shares at an average price of \$34.30 per share from its structured repurchase agreements and it expended approximately \$166.2 million on open market purchases, repurchasing 5,133,091 shares of outstanding common stock at an average price of \$32.38. In addition, during the nine months ended September 30, 2008 the Company made aggregate up-front payments of \$58.9 million to certain financial institutions related to structured stock repurchase agreements.

**15. COMMITMENTS AND CONTINGENCIES**

*Leases*

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

The Company has an operating lease obligation related to a property that is not fully utilized which continues to 2018 with a total remaining obligation at September 30, 2009 of approximately \$5.0 million, of which \$1.0 million was accrued as of September 30, 2009, and is reflected in accrued expenses and other current liabilities 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 related to this vacant facility.

*Legal Matters*

Due to the nature of the Company's business, it is subject to patent infringement claims, including current suits against it or one or more of its wholly-owned subsidiaries by Realtime Data, LLC, SSL Services, LLC, and 01 Communiqué Laboratory Inc. alleging infringement by various Citrix products and services. These complaints were filed separately in the United States District Court for the Eastern District of Texas in April 2008 and in January 2007, and in the United States District Court for the Northern District of Ohio in February 2006, respectively, and seek unspecified damages and other relief. The Company believes that it has meritorious defenses to the allegations made in these complaints and intends to vigorously defend these lawsuits; however, it is unable currently to determine the ultimate outcome of these or similar matters or the potential exposure to loss, if any.

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

*Guarantees*

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

software infringes the intellectual property rights of a third party. The Company has not made payments pursuant to these provisions. The Company has not identified any losses that are probable under these provisions and, accordingly, the Company has not recorded a liability related to these indemnification provisions.

**16. RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. SFAS No. 167, which amends FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, ( FIN No. 46(R) ), prescribes a qualitative model for identifying whether a company has a controlling financial interest in a variable interest entity ( VIE ) and eliminates the quantitative model prescribed by FIN No. 46(R). The new model identifies two primary characteristics of a controlling financial interest: (1) it provides a company with the power to direct significant activities of the VIE, and (2) obligates a company to absorb losses of and/or provides rights to receive benefits from the VIE. SFAS No. 167 requires a company to reassess on an ongoing basis whether it holds a controlling financial interest in a VIE. A company that holds a controlling financial interest is deemed to be

**Table of Contents**

**CITRIX SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

the primary beneficiary of the VIE and is required to consolidate the VIE. This statement is effective for fiscal years beginning after November 15, 2009. The Company plans to adopt SFAS No. 167 effective January 1, 2010 and is currently evaluating the impact of adopting this standard.

In August 2009, the FASB issued Accounting Standards Update ( ASU ) No. 2009 05, *Measuring Liabilities at Fair Value*, ( ASU 2009 05 ). ASU 2009 05 amends Accounting Standards Codification ( ASC ) Topic 820, *Fair Value Measurements*. Specifically, ASU 2009 05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: (1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities or similar liabilities when traded as assets and/or (2) a valuation technique that is consistent with the principles of Topic 820 of the ASC (e.g. an income approach or market approach). ASU 2009 05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include inputs relating to the existence of transfer restrictions on that liability. The adoption of this standard did not have any impact on the Company s financial position or results of operations.

In October 2009, the FASB issued ASU No. 2009 13, *Multiple Deliverable Revenue Arrangements*, ( ASU 2009 13 ). ASU 2009 13 amends existing revenue recognition accounting pronouncements that are currently within the scope of FASB ASC Subtopic 605-25. The consensus to Emerging Issues Task Force ( EITF ) Issue No. 08 1, *Revenue Arrangements with Multiple Deliverables*, provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated. This guidance eliminates the requirement to establish the fair value of undelivered products and services and also eliminates the residual method of allocating arrangement consideration. The new guidance provides for separate revenue recognition based upon management s estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. Under the previous guidance, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the potential impact of this standard on its financial position and results of operations.

In October 2009, the FASB issued ASU No. 2009 14, *Certain Revenue Arrangements That Include Software Elements*, ( ASU 2009 14 ). ASU 2009 14 amends existing revenue recognition accounting pronouncements that are currently within the scope of FASB ASC Subtopic 985-605. The consensus to EITF Issue No. 09 3, *Certain Revenue Arrangements That Include Software Elements*, modifies the authoritative guidance for certain tangible products that include software and non-software components that function together to deliver the essential functionality of the product to defer revenue recognition until the last deliverable meets the VSOE threshold of ASC Subtopic 985, among other requirements, even though components of the arrangement have been delivered or services have been provided. The new guidance allows that certain tangible products that contain software and non-software deliverables that work together to deliver the product's essential functionality should be considered non-software deliverables for revenue recognition. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the potential impact of this standard on its financial position and results of operations.

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

*Our operating results and financial condition have varied in the past and could in the future vary significantly depending on a number of factors. From time to time, information provided by us or statements made by our employees contain forward-looking information that involves risks and uncertainties. In particular, statements contained in this Quarterly Report on Form 10-Q, and in the documents incorporated by reference into this Quarterly Report on Form 10-Q, that are not historical facts, including, but not limited to statements concerning new products, development and offerings of products and services, market positioning, Product Licenses, License Updates, Online Services, Technical Services, Application Networking, Desktop Solutions, Datacenter and Cloud Solutions, Application Virtualization, Desktop Virtualization, Server Virtualization, Subscription Advantage, XenApp, NetScaler, XenServer and XenDesktop, legal proceedings, corporate bonds, competition and strategy, deferred revenues, stock-based compensation, licensing and subscription renewal programs, intellectual property, international operations, government regulation, seasonal factors, sales and sales cycle, revenue recognition, profitability, growth of revenues, composition of revenues, cost of revenues, operating expenses, sales, marketing and services expenses, general and administrative expenses, research and development, valuations of investments and derivative instruments, reinvestment or repatriation of foreign earnings, gross margins, amortization expense, interest income, foreign currency expense, impairment charges, fair value measurements, investment transactions (including the AIG Capped Floater, our Settlement with UBS and investments in auction rate and available-for-sale securities), changes in domestic and foreign economic conditions and credit markets, the Strategic Restructuring Program and related restructuring charges, including costs associated with the consolidation of excess facilities, customer delays or reductions in technology purchases, anticipated operating and capital expenditure requirements, our cash inflows, cash and non-cash charges, contractual obligations, our Credit Facility, in-process research and development, tax rates, estimates and deductions, transfer pricing, our pending tax appeal, acquisitions, including XenSource and Vapps, stock repurchases, liquidity, payment of dividends and third party licenses, constitute forward-looking statements and are made under the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are neither promises nor guarantees. Our actual results of operations and financial condition have varied and could in the future vary significantly from those stated in any forward-looking statements. The factors described in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2008, as updated in Part II, Item 1A in this Quarterly Report on Form 10-Q, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Quarterly Report on Form 10-Q, in the documents incorporated by reference into this Quarterly Report on Form 10-Q or presented elsewhere by our management from time to time. Such factors, among others, could have a material adverse effect upon our business, results of operations and financial condition.*

**Executive Summary***Overview*

Management's discussion and analysis of financial condition and results of operations is intended to help the reader understand our financial condition and results of operations. This section is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2009. The results of operations for the periods presented in this report are not necessarily indicative of the results expected for the full year or for any future period, due in part to the seasonality of our business. Historically, our revenue for the fourth quarter of any year is typically higher than our revenue for the first quarter of the subsequent year.

We design, develop and market virtualization, networking and software-as-a-service solutions to improve customers IT capabilities and cost structure. We market and license our products through multiple channels such as value-added resellers, or VARS, channel distributors, system integrators, independent software vendors, our Websites and original equipment manufacturers.

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

We believe our approach is unique in the market because we have combined innovative technologies in the areas of application virtualization, desktop virtualization, marketed as our Desktop Solutions, and server virtualization and application networking, marketed as our Datacenter and Cloud Solutions, to deliver the most comprehensive end-to-end application delivery solution, one that, when considered as a whole, is competitively differentiated by its interoperability and feature set.

## **Table of Contents**

The recent crisis in the credit markets, difficulties in the financial services sector and the overall weakness in the global economy, is impacting IT spending. Although during the third quarter of 2009 we saw improvement in our Americas segment, which includes the United States, Canada and Latin America, our overseas business, especially in our EMEA segment, which includes Europe, the Middle East and Africa, is still being impacted by the ongoing weakness in the global economy. We are continuing to see IT projects delayed and in many cases re-evaluated altogether. This environment has caused our current and potential customers to further delay or reduce technology purchases, which has reduced sales of our products and may result in longer sales cycles, slower adoption of new technologies and increased price competition.

At the same time, however, this environment puts a much sharper focus on IT products and services that can reduce cost and deliver quick, tangible return on investment, or ROI. With our customers focused on economic value in technology solutions, we intend to continue highlighting our solutions' abilities to reduce IT costs, increase business flexibility and deliver ROI.

XenApp and XenDesktop, for example, can reduce the cost of traditional desktop management by virtualizing the desktop and applications in a customer's datacenter, where they are more easily and efficiently maintained. XenServer and NetScaler can alter the traditional economies of the datacenter by providing much greater levels of flexibility of computing resources, especially with respect to servers, by improving application performance and thereby reducing the amount of processing power involved, and allowing easy reconfiguration of servers for multiple purposes. Our real-time collaboration products offer secure and cost-effective solutions that allow users to host and actively participate in online meetings, webinars and training sessions remotely and reduce costs associated with business travel.

Further, we will endeavor to sustain the long-term growth of our businesses and enhance our current solutions through technological innovation, engineering excellence, selective and strategic acquisition of technology, talent and/or companies, and through a commitment to delivering high-quality products and services to customers and partners. We expect to continue to make strategic investments in research and development of existing and new products, and we will invest in research and development of advanced technologies for future application. We believe that delivering innovative and high-value solutions through our Desktop Solutions and Datacenter and Cloud Solutions is the key to meeting customer and partner needs and achieving our future growth.

From an operations standpoint, in order to operate more efficiently and to drive long-term changes in our cost model, on January 28, 2009, we announced the implementation of a strategic restructuring program, or the Strategic Restructuring Program. The Strategic Restructuring Program included reducing our headcount by approximately 450 full-time positions. In 2009, we incurred a pre-tax charge of \$22.8 million related to employee severance and related costs and non-cancelable lease costs related to the consolidation of certain of our facilities. In addition to the Strategic Restructuring Program, we are continuing to take steps to reduce operating costs that include but are not limited to reprioritizing internal projects, reducing contract workers and limiting travel spending.

### *Summary of Results*

For the three months ended September 30, 2009 compared to the three months ended September 30, 2008, a summary of our results is as follows:

Product License revenue decreased 18.1% to \$129.1 million;

License Updates revenue increased 6.9% to \$151.0 million;

Online Services revenue increased 21.4% to \$78.9 million;

Technical Services revenue increased 19.6% to \$42.1 million;

Operating income increased 17.6% to \$56.1 million; and

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

Diluted earnings per share increased 8.3% to \$0.29.

The decrease in our Product License revenue was primarily driven by decreased sales of our Application Virtualization products, mainly in our EMEA segment. As expected, we saw many customers continue to delay or reduce planned IT projects in response to current macro economic conditions. However, we are seeing signs of potential improvement, including improving dynamics in certain markets and a high level of interest in desktop virtualization. The increase in License Updates revenue was driven by renewals of our Subscription Advantage product over a larger subscriber base. Our Online Services revenue increased due to increased sales of our real-time collaboration services. We currently expect that total revenue will increase modestly when comparing the fourth quarter of 2009 to the fourth quarter of 2008, as well as when comparing the 2009 fiscal year to the 2008 fiscal year. In addition, we currently expect that total revenue will increase modestly during the 2010 fiscal year as compared to our expected total revenue for fiscal 2009. The increase in operating income is primarily due to a reduction in compensation and employee related costs of \$19.7 million primarily due to the Strategic Restructuring Program partially offset by increases in professional and IT support fees of \$5.0 million and an increase in depreciation expense of \$4.2 million.

---

## **Table of Contents**

In addition, the crisis in the credit markets has caused some of our investments to experience declines in fair value, which have resulted in impairment charges and unrealized losses in our investment portfolio. We do not currently anticipate that the lack of liquidity caused by holding these investments will have a material adverse effect on our operating cashflows or financial position. We continue to monitor our overall investment portfolio and if the credit ratings of the issuers of our investments deteriorate or if the issuers experience financial difficulty, including bankruptcy, we may be required to make additional adjustments to the carrying value of the securities in our investment portfolio and recognize additional impairment charges for declines in fair value which are determined to be other-than-temporary. See [Liquidity and Capital Resources](#) below.

### **2008 Acquisition**

In October 2008, we acquired all of the issued and outstanding securities of Vapps, Inc., or Vapps, a privately held Delaware corporation headquartered in Hoboken, New Jersey. Vapps offers high quality audio conferencing solutions to small and medium sized businesses and enterprise and service provider markets that complement our online services products. The total consideration for this transaction was approximately \$26.6 million in cash, including \$1.0 million in transaction costs. In addition, if certain financial and operational milestones are achieved by the Vapps business, contingent consideration of up to approximately \$4.4 million may be earned. The sources of funds for this transaction consisted of available cash and investments. In addition, we assumed approximately 0.1 million unvested stock options upon the closing of the transaction.

Revenues from Vapps are included in our Online Services revenue. The Vapps results of operations have been included in our consolidated results of operations beginning after the date of its acquisition.

### *In-process Research and Development 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, was expensed immediately upon the closing of our 2008 acquisition of Vapps in the amount of \$1.1 million because 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 ranged from 21% - 25%. The rate of return determination 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, or GAAP. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. We base these estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances, and these estimates form the basis for our judgments concerning the carrying values of assets and liabilities that are not readily apparent from other sources. We periodically evaluate these estimates and judgments based on available information and experience. Actual results could differ from our estimates under different assumptions and conditions. If actual results significantly differ from our estimates, our financial condition and results of operations could be materially impacted. For more information regarding our critical accounting policies and estimates please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates contained in our Annual Report on Form 10-K for the year ended December 31, 2008 and Note 2 to our condensed consolidated financial statements. There have been no material changes to the critical accounting policies previously disclosed in that report.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30, 2009 vs. September 30, 2008	Nine Months Ended September 30, 2009 vs. September 30, 2008
	2009	2008	2009	2008		
<b>Revenues:</b>						
Product licenses	\$ 129,060	\$ 157,537	\$ 370,652	\$ 457,955	(18.1)%	(19.1)%
License updates	151,041	141,251	448,573	412,464	6.9	8.8
Online services	78,878	64,949	226,208	190,621	21.4	18.7
Technical services	42,063	35,156	117,495	106,617	19.6	10.2
Total net revenues	401,042	398,893	1,162,928	1,167,657	0.5	(0.4)
<b>Cost of net revenues:</b>						
Cost of product license revenues	13,191	10,555	36,191	34,477	25.0	5.0
Cost of services revenues	20,685	19,785	63,440	58,582	4.5	8.3
Amortization of product related intangible assets	11,542	11,948	35,064	35,517	(3.4)	(1.3)
Total cost of net revenues	45,418	42,288	134,695	128,576	7.4	4.8
Gross margin	355,624	356,605	1,028,233	1,039,081	(0.3)	(1.0)
<b>Operating expenses:</b>						
Research and development	68,865	72,500	215,062	217,995	(5.0)	(1.3)
Sales, marketing and services	168,233	169,072	498,952	504,761	(0.5)	(1.2)
General and administrative	57,254	61,866	175,295	192,570	(7.5)	(9.0)
Restructuring	61		22,827		100.0	100.0
Amortization of other intangible assets	5,111	5,468	15,268	16,875	(6.5)	(9.5)
Total operating expenses	299,524	308,906	927,404	932,201	(3.0)	(0.5)
Income from operations	56,100	47,699	100,829	106,880	17.6	(5.7)
Interest income	4,059	7,316	11,167	25,232	(44.5)	(55.7)
Interest expense	(85)	(143)	(243)	(253)	(40.6)	(4.0)
Other income (expense), net	1,651	(3,992)	939	(7,005)	*	*
Income before income taxes	61,725	50,880	112,692	124,854	21.3	(9.7)
Income taxes	8,302	1,731	9,823	6,678	379.6	47.1
Net income	\$ 53,423	\$ 49,149	\$ 102,869	\$ 118,176	8.7%	(13.0)%

\* not meaningful  
Revenues

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

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 following major products:

Desktop Solutions products including:

Our Application Virtualization products, including our XenApp product family; and

Our Desktop Virtualization product, including our XenDesktop product family.  
Datacenter and Cloud products including:

Our Application Networking products, including NetScaler, Branch Repeater and Access Gateway; and

Our Server Virtualization products, including XenServer.

**Table of Contents**

In addition, we offer incentive programs to our channel distributors and VARs to stimulate demand for our products. Revenues associated with these programs are partially offset by these incentives to our channel distributors and VARs. License Updates consist of fees related to our Subscription Advantage program that are recognized ratably over the term of the contract, which is typically 12 to 24 months. Subscription Advantage is an annual renewable program that provides subscribers with automatic delivery of unspecified software upgrades, enhancements and maintenance releases when and if they become available during the term of the subscription. 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 September 30,		Nine Months Ended September 30,		Three Months Ended September 30, 2009 vs. September 30, 2008	Nine Months Ended September 30, 2009 vs. September 30, 2008
	2009	2008	2009	2008		
	(In thousands)					
Product Licenses	\$ 129,060	\$ 157,537	\$ 370,652	\$ 457,955	\$ (28,477)	\$ (87,303)
License Updates	151,041	141,251	448,573	412,464	9,790	36,109
Online Services	78,878	64,949	226,208	190,621	13,929	35,587
Technical Services	42,063	35,156	117,495	106,617	6,907	10,878
Total net revenues	\$ 401,042	\$ 398,893	\$ 1,162,928	\$ 1,167,657	\$ 2,149	\$ (4,729)

*Product Licenses*

Product License revenue decreased for the three months ended September 30, 2009 compared to the three months ended September 30, 2008 primarily due to a decrease in sales of our Application Virtualization products of \$32.8 million partially offset by increased sales of our XenDesktop product of \$5.8 million and sales decreased for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 due to decreased sales of our Application Virtualization products of \$98.3 million partially offset by increased sales of our XenDesktop product of \$13.7 million. The decreases in our Application Virtualization product sales continue to be driven by weakness in the global economy as discussed in the Executive Summary above. We currently expect Product License revenue to decrease when comparing the fourth quarter of 2009 to the fourth quarter of 2008.

*License Updates*

License Updates revenue increased for the three months ended September 30, 2009 compared to the three months ended September 30, 2008 and for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 primarily due to renewals related to our Subscription Advantage program over a larger base of subscribers. We currently anticipate that License Updates revenue will increase when comparing the fourth quarter of 2009 to the fourth quarter of 2008 primarily due to expected renewals from our installed customer base.

*Online Services*

Online Services revenue increased for the three months ended September 30, 2009 compared to the three months ended September 30, 2008 and for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 primarily due to increased sales of our real time application collaboration products. We currently expect Online Services revenues to continue to increase when comparing the fourth quarter of 2009 to the fourth quarter of 2008.

*Technical Services*

Technical Services revenue increased for the three months ended September 30, 2009 compared to the three months ended September 30, 2008 primarily due to increased sales of support services related to our Application Networking products. Technical Services revenue increased for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 primarily due to increased sales of support services related to our Application Networking products of \$15.5 million. This increase was partially offset by a decrease in sales of consulting and education services related to our Application Virtualization products of \$5.5 million. We currently expect Technical Services sales to increase when comparing the fourth quarter of 2009 to the fourth quarter of 2008.

*Deferred Revenue*

Deferred revenues are primarily comprised of revenue from our Subscription Advantage product, Online Services revenues from annual service agreements for our online services products and Technical Services revenues related to our support services and consulting contracts. Deferred revenues increased approximately \$22.5 million as of September 30, 2009 compared to December 31, 2008 primarily due to increased sales of our support services of \$13.9 million, increased sales of our online service agreements of \$6.4 million and new sales of our Subscription Advantage product of \$4.0 million. We currently expect deferred revenues to increase for the remainder of 2009 consistent with the anticipated increase in sales of multi-year Subscription Advantage contracts.

**Table of Contents***International Revenues*

International revenues (sales outside the United States) accounted for approximately 42.1% of our net revenues for the three months ended September 30, 2009 and 45.9% of our net revenues for the three months ended September 30, 2008. International revenues accounted for approximately 42.6% of our net revenues for the nine months ended September 30, 2009 and 45.6% of our net revenues for the nine months ended September 30, 2008. The decrease in international revenues as a percent of our total revenues is primarily due to the continued weakness in EMEA's economy. See discussion below and Note 9 to our condensed consolidated financial statements for detailed information on segment revenues.

*Segment Revenues*

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

	Three Months Ended		Nine Months Ended		Increase (Decrease) for the	
	September 30, 2009	2008	September 30, 2009	2008	Three Months Ended September 30, 2009 vs. September 30, 2008	Nine Months Ended September 30, 2009 vs. September 30, 2008
Americas (1)	\$ 177,843	\$ 168,898	\$ 507,386	\$ 493,736	5.3%	2.8%
EMEA (2)	112,366	131,487	337,721	385,902	(14.5)	(12.5)
Asia-Pacific	31,955	33,559	91,613	97,398	(4.8)	(5.9)
Online Services division	78,878	64,949	226,208	190,621	21.4	18.7
Net revenues	\$ 401,042	\$ 398,893	\$ 1,162,928	\$ 1,167,657	0.5%	(0.4)%

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

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

In the Americas segment, the increase in net revenue was primarily due to renewals related to our Subscription Advantage program and increased sales of our support and consulting services. When comparing the three months ended September 30, 2009 to the three months ended September 30, 2008, License Updates revenue in the Americas increased \$6.3 million and Technical Services revenue increased \$5.1 million. These increases were partially offset by decreases in Product License revenue which decreased \$2.4 million when comparing the three months ended September 30, 2009 to the three months ended September 30, 2008. When comparing the nine months ended September 30, 2009 to the nine months ended September 30, 2008 License Updates revenue increased \$19.8 million and Technical Services revenue increased \$8.0 million. These increases were partially offset by a decrease in Product License revenue of \$14.1 million when comparing the nine months ended September 30, 2009 to the nine months ended September 30, 2008.

In EMEA the decrease in revenue was primarily driven by the continued economic downturn impacting the region. The decrease in revenue was primarily due to a decrease in Product License revenue. When comparing the three months ended September 30, 2009 to the three months ended September 30, 2008, Product License revenue in EMEA decreased \$23.5 million and when comparing the nine months ended September 30, 2009 to the nine months ended September 30, 2008 it decreased \$65.8 million. These decreases were partially offset by increases in renewals related to our Subscription Advantage program. When comparing the three months ended September 30, 2009 to the three months ended September 30, 2008 License Updates revenue in EMEA increased \$2.8 million and when comparing the nine months ended September 30, 2009 to the nine months ended September 30, 2008 it increased \$14.9 million.

In Asia-Pacific, or APAC, the decrease in revenue was primarily driven by the continued economic downturn impacting the region. The decrease in revenue during the three and nine months ended September 30, 2009, as compared to the three and nine months ended September 30, 2008, were primarily due to a decrease in Product License revenue.

The increases in the Online Services division's revenues for the three and nine months ended September 30, 2009 compared to the three and nine months ended September 30, 2008, were due primarily to increased sales of our real time application collaboration products. See Note 9 of our condensed consolidated financial statements for additional information on our segment revenues.



**Table of Contents***Cost of Net Revenues*

	Three Months Ended September 30, 2009		Three Months Ended September 30, 2008		Three Months Ended September 30, 2009 vs. September 30, 2008		Three Months Ended September 30, 2009 vs. September 30, 2008	
	2009	2008	2009	2008				
	(In thousands)							
Cost of product license revenues	\$ 13,191	\$ 10,555	\$ 36,191	\$ 34,477	\$	2,636	\$	1,714
Cost of services revenues	20,685	19,785	63,440	58,582		900		4,858
Amortization of product related intangible assets	11,542	11,948	35,064	35,517		(406)		(453)
Total cost of net revenues	\$ 45,418	\$ 42,288	\$ 134,695	\$ 128,576	\$	3,130	\$	6,119

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

Cost of product license revenues increased for the three months ended September 30, 2009 compared to the three months ended September 30, 2008 and for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 primarily due to increased sales of our Application Networking products which contain hardware components that have a higher cost than our other software products. Cost of services revenues increased \$7.4 million for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 primarily due to an increase in sales of our real-time application collaboration products. This increase was partially offset by a decrease of \$2.6 million for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 due to savings related to the costs of providing our Application Virtualization consulting and educational services.

*Gross Margin*

Gross margin as a percentage of revenue was 88.7% for the three months ended September 30, 2009 and 89.4% for the three months ended September 30, 2008. Gross margin as a percentage of revenue was 88.4% for the nine months ended September 30, 2009 and 89.0% for the nine months ended September 30, 2008. We currently expect that our gross margin will remain relatively flat for the remainder of 2009 due to the factors discussed above under Revenues and Cost of Net Revenues.

*Operating Expenses**Foreign Currency Impact on Operating Expenses*

A substantial majority of our overseas operating expenses and capital purchasing activities are transacted in local currencies and are therefore subject to fluctuations in foreign currency exchange rates. In order to minimize the impact on our operating results, we generally initiate our hedging of currency exchange risks up to one year in advance of anticipated foreign currency expenses. When the dollar is weak, the resulting increase to foreign currency denominated expenses will be partially offset by the gain in our hedging contracts. When the dollar is strong, the resulting decrease to foreign currency denominated expenses will be partially offset by the aggregate 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 during the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008, our operating expenses were higher when converted to U.S. dollars, but these higher expenses were partially offset by gains in our hedging programs.

*Other Items Impacting Operating Expenses*

The Strategic Restructuring Program included reducing our headcount by approximately 450 full-time positions and the consolidation of excess facilities. Due to the Strategic Restructuring Program, we expect that for the remainder of 2009 we will experience decreases in compensation and employee related costs across all functional areas including research and development, sales, marketing and services and general and administrative expenses. These savings will be partially offset as we continue to make strategic investments in the business during the remainder of 2009. In addition, the reduction in our headcount and consolidation of our facilities is currently expected to result in pre-tax savings in

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

compensation and other employee related costs of approximately \$49.8 million during 2009. For more information regarding the Strategic Restructuring Program, see the Executive Summary above.

In addition, during the first quarter of 2009, we revised our methodology for allocating depreciation and certain facilities-related costs to more closely align these allocated costs to the employees directly utilizing the assets and facilities.

**Table of Contents***Research and Development Expenses*

	<b>Three Months Ended September 30, 2009</b>		<b>Nine Months Ended September 30, 2009</b>		<b>Three Months Ended September 30, 2009 vs. September 30, 2008</b>		<b>Nine Months Ended September 30, 2009 vs. September 30, 2008</b>	
--	--	--	---	--	---	--	--	--

Research and development	<b>\$ 68,865</b>	\$ 72,500	<b>\$ 215,062</b>	\$ 217,995	\$ (3,635)	\$ (2,933)
--------------------------	------------------	-----------	-------------------	------------	------------	------------

Research and development expenses consisted primarily of personnel related costs and facility and equipment costs directly related to our research and development activities. We expensed substantially all development costs included in the research and development of our products and new functionality added to our existing products as incurred, except for certain core technologies which were technologically feasible.

Research and development expenses decreased for the three months ended September 30, 2009 compared to the three months ended September 30, 2008 due to a \$7.4 million decrease in compensation and other employee related costs due to the implementation of the Strategic Restructuring Program partially offset by a \$3.8 million increase in depreciation and facility-related costs due primarily to the revised allocation methodology described above.

Research and development expenses decreased for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 primarily due to a \$20.3 million decrease in compensation and other employee related costs due to the implementation of the Strategic Restructuring Program. These decreases are partially offset by a \$12.8 million increase in depreciation and facility-related costs due primarily to the revised allocation methodology described above and by a \$5.2 million increase in compensation expense due to the adjustment of goodwill related to our XenSource Acquisition. For more information regarding the adjustment made to the XenSource acquisition goodwill, see Note 1 to our condensed consolidated financial statements.

*Sales, Marketing and Services Expenses*

	<b>Three Months Ended September 30, 2009</b>		<b>Nine Months Ended September 30, 2009</b>		<b>Three Months Ended September 30, 2009 vs. September 30, 2008</b>		<b>Nine Months Ended September 30, 2009 vs. September 30, 2008</b>	
--	--	--	---	--	---	--	--	--

Sales, marketing and services	<b>\$ 168,233</b>	\$ 169,072	<b>\$ 498,952</b>	\$ 504,761	\$ (839)	\$ (5,809)
-------------------------------	-------------------	------------	-------------------	------------	----------	------------

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

Sales, marketing and services expenses decreased for the three months ended September 30, 2009 compared to the three months ended September 30, 2008 primarily due to a \$13.5 million decrease in compensation and other employee related costs resulting from the implementation of the Strategic Restructuring Program. This decrease was partially offset by a \$6.3 million increase in depreciation and other facility-related costs due primarily to the revised allocation methodology described above and a \$3.3 million increase in marketing programs.

Sales, marketing and services expenses decreased for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 primarily due to a \$45.7 million decrease in compensation and other employee related costs resulting from the implementation of the Strategic Restructuring Program. This decrease was partially offset by a \$21.4 million increase in depreciation and other facility-related costs due primarily to the revised allocation methodology described above and a \$10.5 million increase due to the settlement of foreign currency contracts during the period which was offset by lower foreign currency denominated expenses due to a stronger U.S. dollar. See also *Foreign Currency Impact on Operating Expenses* above for more information on the effect of our hedging programs on our operating expenses.





**Table of Contents***Interest Income*

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009		Three Months Ended September 30, 2009 vs. September 30, 2008		Nine Months Ended September 30, 2009 vs. September 30, 2008	
	2009	2008	2009	2008				
Interest income	<b>\$ 4,059</b>	\$ 7,316	<b>\$ 11,167</b>	\$ 25,232	\$	(3,257)	\$	(14,065)

(In thousands)

Interest income decreased for the three months ended September 30, 2009 compared to the three months ended September 30, 2008 and for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 primarily due to decreased interest rates earned on overall average cash, cash equivalent and investment balances. We currently expect interest income to continue to be lower for the remainder of 2009 when compared to 2008 due to the effect of lower market interest rates. For more information, see Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.

*Other Income (Expense), Net*

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009		Three Months Ended September 30, 2009 vs. September 30, 2008		Nine Months Ended September 30, 2009 vs. September 30, 2008	
	2009	2008	2009	2008				
Other income (expense), net	<b>\$ 1,651</b>	\$ (3,992)	<b>\$ 939</b>	\$ (7,005)	\$	5,643	\$	7,944

(In thousands)

Other income (expense), net, is primarily comprised of realized gains (losses) related to changes in the fair value of our investments that have a decline in fair value that is considered other-than-temporary and on the sale of available-for-sale investments and remeasurement of foreign currency transaction gains (losses). The increase in other income (expense), net, during the three months ended September 30, 2009 compared to the three months ended September 30, 2008 is primarily due to an increase in gains related to our foreign currency transactions. The increase in other income (expense), net, when comparing the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 is primarily due to an increase in gains related to our foreign currency transactions of \$4.7 million and a decrease in losses on investments that were determined to have an other-than-temporary decline in value of \$3.9 million. For more information on our investments, see Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.

*Income Taxes*

As of September 30, 2009, our net unrecognized tax benefits totaled approximately \$29.7 million. There were no amounts included in the balance at September 30, 2009 for tax positions which would not affect the annual effective tax rate and approximately \$0.3 million of accrued interest on tax positions, which is included in income tax expense.

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

During the third quarter of 2009, the Internal Revenue Service, or IRS, concluded its examination of our income tax returns for 2004 and 2005 and issued a final Revenue Agent's Report, or the RAR. We agreed with all of the adjustments contained in the RAR, with the exception of the transfer pricing and consequential adjustment relating to the intercompany transfer of certain intellectual property in earlier tax years. The RAR asserts income tax deficiencies related to the transfer pricing and consequential adjustments of approximately \$81.3 million for tax years 2004 and 2005, excluding interest. In addition, the transfer pricing and consequential adjustments to our 2004 and 2005 tax years would impact our income tax liabilities in tax years subsequent to 2005. We disagree with the adjustments and have filed a protest, which will cause the matter to be referred to the Appeals Division of the IRS. We intend to contest the adjustments through the IRS appeals process and the courts, if necessary. There can be no assurance, however, that this matter, or any future tax examinations involving similar assertions, will be resolved in our favor, and an adverse outcome of this matter could have a material adverse effect on our results of operations and financial condition. Regardless of whether this matter is resolved in our favor, the final resolution of this matter could be expensive and time-consuming to defend.

In the ordinary course of global business, there are transactions for which the ultimate tax outcome is uncertain and judgment is required in determining the worldwide provision for income taxes. We provide for income taxes on transactions based on our estimate of the probable liability. We adjust our provision as appropriate for changes that impact our underlying judgments. Changes that impact provision estimates

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

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.

**Table of Contents**

We are required to estimate our income taxes in each of the jurisdictions in which we operate as part of the process of preparing our condensed consolidated financial statements. At September 30, 2009, we have approximately \$50.2 million in deferred tax assets. The authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We review deferred tax assets periodically for recoverability and make estimates and judgments regarding the expected geographic sources of taxable income and gains from investments, as well as tax planning strategies in assessing the need for a valuation allowance.

We maintain certain operational and administrative processes in overseas subsidiaries, and our foreign earnings are taxed at lower foreign tax rates. We do not expect to remit earnings from our foreign subsidiaries. Our effective tax rate was approximately 13.5% for the three months ended September 30, 2009 and 3.4% for the three months ended September 30, 2008, and 8.7% for the nine months ended September 30, 2009 and 5.3% for the nine months ended September 30, 2008. The increase in the effective tax rate when comparing the three months ended September 30, 2009 to the three months ended September 30, 2008 is primarily due to an increase in income in geographic locations taxed at a higher rate. The increase in the effective tax rate when comparing the nine months ended September 30, 2009 to the nine months ended September 30, 2008 is due primarily to an increase in income in geographic locations taxed at a higher rate and the tax impact related to stock-based compensation expense partially offset by the tax impact of our Strategic Restructuring Plan.

**Liquidity and Capital Resources**

During the nine months ended September 30, 2009, we generated positive operating cash flows of \$302.1 million. These cash flows related primarily to net income of \$102.9 million, adjusted for, among other things, non-cash charges, including depreciation and amortization expenses of \$102.3 million, stock-based compensation expense of \$84.5 million, a goodwill adjustment of \$5.4 million and an aggregate increase in operating assets and liabilities of \$7.4 million, net of effects of our acquisitions. These cash inflows are partially offset by operating outflows related to the excess benefit from the exercise of stock options of \$6.9 million and the tax effect of stock-based compensation of \$4.4 million. Our investing activities used \$322.3 million of cash consisting primarily of cash paid for net purchases of investments of \$257.1 million. Also contributing to these cash outflows is the purchase of property and equipment of \$56.8 million. Our financing activities used \$4.0 million of cash primarily from expenditures on our stock repurchase program of \$140.0 million partially offset by proceeds received from the issuance of common stock under our employee stock-based compensation plans of \$129.1 million.

During the nine months ended September 30, 2008, we generated positive operating cash flows of \$296.0 million. These cash flows related primarily to net income of \$118.2 million, adjusted for, among other things, non-cash charges, including stock-based compensation expense of \$90.9 million, depreciation and amortization expenses of \$89.9 million, the tax effect of stock-based compensation of \$4.3 million and realized losses on our investments of \$3.9 million. These cash inflows are partially offset by an aggregate decrease in operating assets and liabilities of \$11.0 million, net of effects of our acquisitions and an operating cash outflow of \$5.4 million related to the excess benefit from the exercise of stock options. Our investing activities used \$124.1 million of cash consisting primarily of cash paid for the purchase of property and equipment of \$87.6 million and the expenditure of \$32.0 million for licensing agreements and the purchase of product related intangible assets. Our financing activities used cash of \$182.7 million primarily related to our stock repurchase program of \$225.1 million partially offset by proceeds received from the issuance of common stock under our employee stock-based compensation plans of \$37.5 million.

Historically, significant portions of our cash inflows were generated by our operations. We currently expect this trend to continue throughout 2009. We believe that our existing cash and investments together with cash flows expected from operations will be sufficient to meet expected operating and capital expenditure requirements for the next 12 months.

*Cash, Cash Equivalents and Investments*

	September 30, 2009	December 31, 2008	2009 Compared to 2008
	(In thousands)		
Cash, cash equivalents and investments	\$ 1,090,368	\$ 850,881	\$ 239,487

The increase in cash, cash equivalents and investments when comparing September 30, 2009 to December 31, 2008, is primarily due to cash provided by our operating activities of \$302.1 million and cash received from the issuance of common stock under our employee stock-based compensation plans of \$129.1 million partially offset by expenditures made on our stock repurchases of \$140.0 million.



---

**Table of Contents**

million and purchases of property and equipment of \$56.8 million. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources. We generally invest our cash and cash equivalents in investment grade, highly liquid securities to allow for flexibility in the event of immediate cash needs. Our short-term and long-term investments primarily consist of interest-bearing securities.

*Available-for-sale investments*

As of September 30, 2009, we recorded an unrealized loss of approximately \$5.8 million, which is included in accumulated other comprehensive loss, related to our \$50.0 million face value investment issued by AIG Matched Funding Corporation, or the AIG Capped Floater, which matures in September 2011. American International Group, Inc., or AIG, as the issuer's parent, provided a guarantee of the security at the time of purchase in September 2006. The unrealized loss was primarily caused by AIG experiencing liquidity challenges which were reportedly precipitated by problems in the capital markets. AIG's lack of liquidity triggered a downgrade in the credit ratings for its long-term issues to A- and A3 by two rating agencies on October 3, 2008. As a result of AIG's liquidity challenges, in November 2008 the Federal Reserve Bank of New York, or the FRBNY, intervened with a five-year credit facility to help stabilize AIG and the overall market. In addition, on March 2, 2009, AIG announced further actions were taken in cooperation with the U.S. Department of Treasury and the FRBNY to provide AIG with additional financial stability. As of the date of this report, AIG has not been reported to have defaulted on capital repayments to holders of its recently matured debt and it continues to pay us interest on the AIG Capped Floater. Because we do not intend to sell the AIG Capped Floater and it is more likely than not that we will not be required to sell the security before the recovery of its amortized cost basis, which may not occur until maturity, we do not consider the security to be other-than-temporarily impaired.

If AIG's financial position deteriorates, we may be required to further adjust the carrying value of the AIG Capped Floater and potentially recognize an impairment charge for an other-than-temporary decline in the fair value of the investment. Based on our available cash and other investments, we do not currently anticipate that the lack of liquidity caused by holding the AIG Capped Floater to recovery will have a material adverse effect on our financial position.

We continue to monitor our overall investment portfolio and if the credit ratings of the issuers of our investments deteriorate or if the issuers experience financial difficulty, including bankruptcy, we may be required to make additional adjustments to the carrying value of the securities in our investment portfolio and recognize additional impairment charges for declines in fair value that are determined to be other-than-temporary.

*Trading Investments*

As of September 30, 2009, we held municipal auction rate securities, of which substantially all were triple-A rated, with an aggregate par value of approximately \$45.2 million, whose underlying assets are generally student loans that are substantially backed by the federal government under the Federal Family Education Loan Program through investment accounts managed by UBS Financial Services, Inc., or UBS. The market for municipal auction rate securities in our portfolio began experiencing auction failures on February 13, 2008 and there have been no successful auctions for the securities held in our portfolio since the failures began. In November 2008, we formally accepted the terms of a settlement from UBS, or the Settlement. Upon accepting the terms of the Settlement, we received an enforceable, non-transferable right, or the Put Option, that enables us to sell our auction rate securities back to UBS during the period between June 30, 2010 and July 2, 2012 at par value. Accordingly, we recorded the fair value of the Put Option in other assets in our financial statements and contemporaneously made the fair value election as permitted by the authoritative guidance which states that companies may elect the fair value option for eligible financial assets. Therefore, we record changes in the fair value of the Put Option in earnings. During the nine months ended September 30, 2009, we recorded a gain of \$1.2 million related to our investments in auction rate securities and a corresponding loss of \$1.3 million related to the Put Option, both of which are included in other income (expense), net, in our condensed consolidated statements of income.

*Fair Value Measurements*

On January 1, 2008, we adopted the authoritative guidance for fair value measurements for financial assets and financial liabilities. The authoritative guidance, which, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as an exit price, representing the amount that would either be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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

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

**Table of Contents**

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

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

We measure our cash flow hedges at fair value based on indicative prices in active markets and we generally measure our investments in available-for-sale securities at fair value based on quoted prices in active markets for identical securities.

Due to the illiquidity in the municipal auction rate securities market caused by failed auctions, our valuation technique for certain of our municipal auction rate securities is to measure such securities at fair value using a discounted cash flow model. In our discounted cash flow model, we used several assumptions to derive a fair value for our investments in municipal auction rate securities, including a discount rate based on the credit quality of the underlying investments and a factor to further discount the investments for the illiquidity currently present in the market for these securities. Accordingly, these trading investments are included in Level 3. Also included in Level 3 is the Put Option. In order to determine the fair value of the Put Option, we measured the differential between the aggregate par value of our auction rate securities and their fair value as of the reporting date and applied a discount rate that considers both the time period between the reporting date and the first date we will be able to exercise our right to put the auction rate securities to UBS per the terms of the Settlement and the credit worthiness of UBS.

During 2008, we measured our AIG Capped Floater using indicative pricing for another AIG security with similar terms, or the Referenced Security, which had regular trading activity, a Level 2 observation. During 2009, trading in the Referenced Security significantly decreased and other floating rate AIG debt securities with regular trading activity were too close to their maturities to be used to establish fair value for the AIG Capped Floater. Therefore, in order to measure the AIG Capped Floater at fair value we used a discounted cash flow model. We utilized a two-year swap rate, which is the rate at which LIBOR could be fixed for the remaining two years until maturity of the security, to derive the cash flows from the AIG Capped Floater. We then discounted those cash flows at a rate reflecting the market risk inherent in holding an AIG security with a similar maturity as evidenced by pricing in the markets. Since utilizing a discounted cash flow model required us to make assumptions that were not directly or indirectly observable regarding the AIG Capped Floater's fair value during 2009, it was transferred to Level 3 and is included in the table below as a transfer to Level 3.

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

	Put Option	Long-term Investments (In thousands)	Total
Balance at December 31, 2008	\$ 7,378	\$ 37,919	\$ 45,297
Transfers to Level 3		44,231	44,231
Total realized (losses) gains included in earnings	(1,326)	1,185	(141)
Balance at September 30, 2009	\$ 6,052	\$ 83,335	\$ 89,387

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

*Accounts Receivable, Net*

	September 30, 2009	December 31, 2008 (In thousands)	2009 Compared to 2008
Accounts receivable	\$ 244,581	\$ 239,998	\$ 4,583
Allowance for returns	(1,536)	(1,641)	105
Allowance for doubtful accounts	(5,148)	(7,061)	1,913
Accounts receivable, net	\$ 237,897	\$ 231,296	\$ 6,601

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

The increase in accounts receivable when comparing September 30, 2009 to December 31, 2008 was primarily due to the timing of sales during the third quarter of 2009 compared to the fourth quarter of 2008. For example, there were higher sales in the last month of the third quarter in 2009 in the Americas, APAC and our Online Services division compared to sales in the last month of the fourth quarter in 2008. Our allowance for returns was \$1.5 million at September 30, 2009 compared to \$1.6 million at December 31, 2008. The activity in our allowance for returns was comprised primarily of \$2.8 million in credits issued for returns partially offset by \$2.7 million of provisions for returns recorded in the first nine months of 2009. The activity in our allowance for doubtful accounts was primarily comprised of \$3.3 million of uncollectible accounts written off, net of recoveries, partially offset by additional provisions for doubtful accounts of \$1.4 million recorded during the first nine months of 2009. From time to time, we could maintain individually

---

## **Table of Contents**

significant accounts receivable balances from our distributors or customers, which are comprised of large business enterprises, governments and small and medium-sized businesses. If the financial condition of our distributors or customers deteriorates, our operating results could be adversely affected.

### *Credit Facility*

Effective on August 9, 2005, we entered into the Credit Facility with a group of financial institutions, or the Lenders. Effective September 27, 2006, we entered into an amendment and restatement of the Credit Facility, or the Amendment. The Amendment decreased the overall range of interest we will pay on amounts outstanding on the Credit Facility and lowered the facility fee. In addition, the Amendment extended the term of the Credit Facility. The Credit Facility, as amended, allows us to increase the revolving credit commitment up to a maximum aggregate revolving credit commitment of \$175.0 million. The Credit Facility, as amended, 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 (1) in the aggregate amount of \$25.0 million may be available for issuances of letters of credit and (2) in the aggregate amount of \$15.0 million may be available for swing line loans. The Credit Facility, as amended, currently bears interest at the London Interbank Offered Rate, or LIBOR, plus 0.32% and adjusts in the future in the range of 0.32% to 0.80% above LIBOR based on the level of our total debt and our adjusted earnings before interest, taxes, depreciation and amortization, or EBITDA. In addition, we are required to pay an annual facility fee ranging from 0.08% to 0.20% based on the aggregate amount available under the Credit Facility, as amended, and the level of our total debt and adjusted EBITDA. During the three and nine months ended September 30, 2009, no funds were borrowed under the Credit Facility, as amended, and as of September 30, 2009 there were no amounts outstanding under the Credit Facility, as amended.

The Credit Facility, as amended, contains customary default provisions, and we must comply with various financial and non-financial covenants. The financial covenants consist of a minimum interest coverage ratio and a maximum consolidated leverage ratio. The primary non-financial covenants contain certain limits on our ability to pay dividends, conduct certain mergers or acquisitions, make certain investments and loans, incur future indebtedness or liens, alter our capital structure or sell stock or assets. As of September 30, 2009, we were in compliance with all covenants of the Credit Facility.

### *Stock Repurchase Program*

Our Board of Directors authorized an ongoing stock repurchase program with a total repurchase authority granted to us of \$2.1 billion. We may use the approved dollar authority to repurchase stock at any time until the approved amount is exhausted. The objective of our stock repurchase program is to improve stockholders' returns. At September 30, 2009, approximately \$236.9 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock. A portion of the funds used to repurchase stock over the course of the program was provided by proceeds from employee stock option exercises and the related tax benefit.

We are authorized to make open market purchases of our common stock using general corporate funds. Additionally, from time to time, we have 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 us to make up-front payments to the counterparty financial institution and result in the receipt of stock during 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 September 30, 2009, we expended approximately \$75.0 million on open market purchases, repurchasing 2,109,030 shares of outstanding common stock at an average price of \$35.56. In addition, as of September 30, 2009, we did not have any prepaid notional amounts remaining under structured stock repurchase programs and we did not make any up-front payments to financial institutions related to structured stock repurchase agreements during the period.

During the nine months ended September 30, 2009, we expended approximately \$140.0 million on open market purchases, repurchasing 4,531,330 shares of outstanding common stock at an average price of \$30.89. In addition, during the period, we did not make up-front payments to certain financial institutions related to structured stock repurchase agreements.

During the three months ended September 30, 2008, we took delivery of 639,899 shares at an average price of \$29.13 per share from our structured repurchase agreements and we expended approximately \$50.0 million on open market purchases, repurchasing 1,711,758 shares of outstanding common stock at an average price of \$29.18. In addition, during the three months ended September 30, 2008 we made up-front payments of \$25.0 million to certain financial institutions related to structured stock repurchase agreements.

During the nine months ended September 30, 2008, we took delivery of 3,548,544 shares at an average price of \$34.30 per share from our structured repurchase agreements and we expended approximately \$166.2 million on open market purchases, repurchasing 5,133,091 shares of

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

outstanding common stock at an average price of \$32.38. In addition, during the nine months ended September 30, 2008 we made up-front payments of \$58.9 million to certain financial institutions related to structured stock repurchase agreements.

---

## **Table of Contents**

### *Office Leases*

We have an operating lease obligation related to a property that is not fully utilized which continues to 2018 with a total remaining obligation at September 30, 2009 of approximately \$5.0 million, of which \$1.0 million was accrued as of September 30, 2009, and is reflected in accrued expenses and other current liabilities and other liabilities in our condensed 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 related to this vacant facility.

### *Off-Balance Sheet Arrangements*

The Company does not have any special purpose entities or off-balance sheet financing arrangements.

## **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, 2008.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

As of September 30, 2009, 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 September 30, 2009, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed by us 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 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 September 30, 2009, 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.

## **PART II. OTHER INFORMATION**

## **ITEM 1. LEGAL PROCEEDINGS**

Due to the nature of our business, we are subject to patent infringement claims, including current suits against us or one or more of our wholly-owned subsidiaries by Realtime Data, LLC, SSL Services, LLC, and 01 Communiqué Laboratory Inc. alleging infringement by various Citrix products and services. These complaints were filed separately in the United States District Court for the Eastern District of Texas in April 2008 and in January 2007, and in the United States District Court for the Northern District of Ohio in February 2006, respectively, and seek unspecified damages and other relief. We believe that we have meritorious defenses to the allegations made in these complaints and intend to vigorously defend these lawsuits; however, we are unable currently to determine the ultimate outcome of these or similar matters or the potential exposure to loss, if any.

Information with respect to this Item may be found in Notes 13 and 15 to our condensed consolidated financial statements, which information is incorporated into this Part II, Item 1 by reference.

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

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 outcomes will not materially affect our business, financial position, results of operations or cash flows.

### **ITEM 1A. RISK FACTORS**

The following information updates, and should be read in conjunction with, the information disclosed in Part 1, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed with the Securities and Exchange Commission on February 27, 2009. Except as disclosed below, 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, 2008.

**Table of Contents**

*We have received a Revenue Agent's Report from the Internal Revenue Service asserting tax deficiencies in certain of our tax returns. An adverse outcome of this tax examination, or any future tax examinations involving similar assertions, could have a material adverse effect on our results of operations and financial condition.*

In connection with a current IRS examination of our tax returns, the IRS has asserted income tax deficiencies related to transfer pricing and consequential adjustments of approximately \$81.3 million for tax years 2004 and 2005 (excluding interest) relating to valuation matters associated with the intercompany transfer of certain intellectual property in earlier tax years. We disagree with the adjustments and have filed a protest with the IRS, which will cause the matter to be referred to the Appeals Division of the IRS. We intend to contest the adjustments through the IRS appeals process and the courts, if necessary. There can be no assurance, however, that this matter will be resolved in our favor, and an adverse outcome of this matter, or any future tax examinations involving similar assertions, could have a material adverse effect on our results of operations and financial condition. Regardless of whether this matter is resolved in our favor, the final resolution of this matter could be expensive and time-consuming to defend.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Purchases of Equity Securities by the Issuer**

Our Board of Directors has authorized an ongoing stock repurchase program with a total repurchase authority granted to us of \$2.1 billion. The objective of the stock repurchase program is to improve stockholders' returns. At September 30, 2009, approximately \$236.9 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock. The following table shows the monthly activity related to our stock repurchase program for the quarter ended September 30, 2009:

	(a) Total Number of Shares (or Units) Purchased <sup>(1)(2)</sup>	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or approximate dollar value) of Shares (or Units) that may yet be Purchased under the Plans or Programs
July 1, 2009 through July 30, 2009	113,730	\$ 35.52	113,730	\$ 307,982
August 1, 2009 through August 31, 2009	1,367,700	35.52	1,367,700	259,403
September 1, 2009 through September 30, 2009	630,276	35.65	630,276	236,932
Total	2,111,706	\$ 35.56	2,111,706	\$ 236,932

(1) Represents shares received under our prepaid stock repurchase programs and acquired in open market purchases. We expended approximately \$75.0 million during the quarter ended September 30, 2009 for repurchases of our common stock. For more information see Note 14 to our condensed consolidated financial statements.

(2) Includes 2,676 shares repurchased in September 2009 to satisfy tax withholding obligations that arose on the vesting of shares of unvested stock units.

**ITEM 5. OTHER INFORMATION**

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

The Company's policy governing transactions in its securities by its directors, officers and employees permits its officers, directors and certain other persons to enter into trading plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. The Company has been advised that each of Mark B. Templeton, our President and Chief Executive Officer, David R. Friedman, our General Counsel and Senior Vice President, Human Resources, and Murray J. Demo, Godfrey R. Sullivan and Gary E. Morin, each of whom serves on our Board of Directors, entered into a new trading plan in the third quarter of 2009 in accordance with Rule 10b5-1 and the Company's policy governing transactions in its securities, in each case for the purpose of exercising soon to expire stock options and to sell the underlying shares of common stock. The Company undertakes no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan.

**Table of Contents**

**ITEM 6. EXHIBITS**

**(a) List of exhibits**

<b>Exhibit No.</b>	<b>Description</b>
10.1*	Form of letter agreement amending Restricted Stock Unit Agreement
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
101	The following financial statements from Citrix Systems, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, as filed with the SEC on November 4, 2009, formatted in XBRL, as follows: <ul style="list-style-type: none"><li>(i) the Condensed Consolidated Balance Sheets</li><li>(ii) the Condensed Consolidated Statement of Income</li><li>(iii) the Condensed Consolidated Statements of Cash Flows</li><li>(iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks to text</li></ul>

\* Indicates a management contract or a 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 4th day of November 2009.

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**

<b>Exhibit No.</b>	<b>Description</b>
10.1*	Form of letter agreement amending Restricted Stock Unit Agreement
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
101	The following financial statements from Citrix Systems, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, as filed with the SEC on November 4, 2009, formatted in XBRL, as follows: <ul style="list-style-type: none"><li>(i) the Condensed Consolidated Balance Sheets</li><li>(ii) the Condensed Consolidated Statement of Income</li><li>(iii) the Condensed Consolidated Statements of Cash Flows</li><li>(iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks to text</li></ul>

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