

CITRIX SYSTEMS INC
Form 10-Q
November 04, 2015

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, 2015

or

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

For the transition period from _____ to _____.

Commission File Number 0-27084

CITRIX SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 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

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

As of October 30, 2015 there were 153,824,447 shares of the registrant's Common Stock, \$.001 par value per share, outstanding.

1

CITRIX SYSTEMS, INC.
 Form 10-Q
 For the Quarterly Period Ended September 30, 2015
 CONTENTS

	Page Number
PART I: <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets: September 30, 2015 (Unaudited) and December 31, 2014 (Derived from audited financial statements)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income: Three and Nine Months ended September 30, 2015 and 2014 (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income: Three and Nine Months ended September 30, 2015 and 2014 (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows: Nine Months ended September 30, 2015 and 2014 (Unaudited)</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>7</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>48</u>
Item 4. <u>Controls and Procedures</u>	<u>48</u>
PART II: <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>49</u>
Item 1A. <u>Risk Factors</u>	<u>49</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>
Item 5. <u>Other Information</u>	<u>51</u>
Item 6. <u>Exhibits</u>	<u>52</u>
<u>Signature</u>	<u>53</u>

PART I: FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CITRIX SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2015 (Unaudited)	December 31, 2014 (Derived from audited financial statements)
	(In thousands, except par value)	
Assets		
Current assets:		
Cash and cash equivalents	\$527,594	\$260,149
Short-term investments, available-for-sale	545,206	529,260
Accounts receivable, net of allowances of \$6,417 and \$5,976 at September 30, 2015 and December 31, 2014, respectively	467,815	674,401
Inventories, net	10,863	12,617
Prepaid expenses and other current assets	141,742	166,005
Current portion of deferred tax assets, net	43,918	45,892
Total current assets	1,737,138	1,688,324
Long-term investments, available-for-sale	792,262	1,073,110
Property and equipment, net	371,101	367,779
Goodwill	1,957,436	1,796,851
Other intangible assets, net	366,048	390,717
Long-term portion of deferred tax assets, net	113,184	128,198
Other assets	68,314	67,028
Total assets	\$5,405,483	\$5,512,007
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$143,299	\$79,884
Accrued expenses and other current liabilities	263,840	298,079
Income taxes payable	2,575	12,053
Current portion of deferred revenues	1,137,828	1,200,093
Total current liabilities	1,547,542	1,590,109
Long-term portion of deferred revenues	372,052	357,771
Convertible notes	1,316,892	1,292,953
Other liabilities	84,305	97,529
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; 298,112 and 294,674 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	298	295
Additional paid-in capital	4,492,313	4,292,706
Retained earnings	3,343,352	3,155,264
Accumulated other comprehensive loss	(29,464)	(36,790)
	7,806,499	7,411,475
Less - common stock in treasury, at cost (140,987 and 133,898 shares at September 30, 2015 and December 31, 2014, respectively)	(5,721,807)	(5,237,830)

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Total stockholders' equity	2,084,692	2,173,645
Total liabilities and stockholders' equity	\$5,405,483	\$5,512,007
See accompanying notes.		

3

CITRIX SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per share information)			
Revenues:				
Product and licenses	\$206,252	\$193,153	\$594,507	\$632,369
Software as a service	190,757	165,253	537,705	483,164
License updates and maintenance	379,585	358,266	1,128,043	1,049,065
Professional services	36,676	42,322	110,576	126,775
Total net revenues	813,270	758,994	2,370,831	2,291,373
Cost of net revenues:				
Cost of product and license revenues	34,859	24,045	83,833	88,144
Cost of services and maintenance revenues	91,295	87,981	270,218	254,763
Amortization of product related intangible assets	20,100	23,959	57,560	102,660
Total cost of net revenues	146,254	135,985	411,611	445,567
Gross margin	667,016	623,009	1,959,220	1,845,806
Operating expenses:				
Research and development	139,128	137,877	423,972	411,870
Sales, marketing and services	293,587	318,252	896,250	956,287
General and administrative	79,799	95,203	241,697	242,606
Amortization and impairment of other intangible assets	76,938	9,956	97,371	32,855
Restructuring	13,766	3,124	62,251	17,285
Total operating expenses	603,218	564,412	1,721,541	1,660,903
Income from operations	63,798	58,597	237,679	184,903
Interest income	3,004	2,411	8,679	6,705
Interest expense	11,075	10,551	33,196	17,601
Other expense, net	(2,369)	(2,235)	(13,480)	(6,002)
Income before income taxes	53,358	48,222	199,682	168,005
Income tax (benefit) expense	(2,567)	690	11,595	11,510
Net income	\$55,925	\$47,532	\$188,087	\$156,495
Earnings per share:				
Basic	\$0.35	\$0.29	\$1.17	\$0.91
Diluted	\$0.35	\$0.29	\$1.16	\$0.90
Weighted average shares outstanding:				
Basic	160,359	164,229	160,359	172,622
Diluted	161,777	165,713	161,716	174,023

See accompanying notes.

CITRIX SYSTEMS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014		2014	
	(In thousands)			
Net income	\$55,925	\$47,532	\$188,087	\$156,495
Other comprehensive (loss) income:				
Change in foreign currency translation adjustment	—	(12,890	) —	(15,617
Available for sale securities:				
Change in net unrealized gains (losses)	94	(911	) 1,392	(182
Less: reclassification adjustment for net gains included in net income	232	(96	) 164	(961
Net change (net of tax effect)	326	(1,007	) 1,556	(1,143
Loss on pension liability	—	(45	) —	(45
Cash flow hedges:				
Change in unrealized losses	(2,348	) (6,809	) (5,692	) (4,197
Less: reclassification adjustment for net losses (gains) included in net income	1,794	(1,500	) 11,462	(4,448
Net change (net of tax effect)	(554	) (8,309	) 5,770	(8,645
Other comprehensive (loss) income	(228	) (22,251	) 7,326	(25,450
Comprehensive income	\$55,697	\$25,281	\$195,413	\$131,045

See accompanying notes.

CITRIX SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
	(In thousands)	
Operating Activities		
Net income	\$ 188,087	\$ 156,495
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other	295,810	251,320
Stock-based compensation expense	103,674	128,440
Excess tax benefit from stock-based compensation	(2,236)	(5,122)
Deferred income tax benefit	(31,873)	(25,114)
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	13,382	825
Other non-cash items	11,155	9,722
Total adjustments to reconcile net income to net cash provided by operating activities	389,912	360,071
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	198,075	182,542
Inventories	1,084	(4,342)
Prepaid expenses and other current assets	(7,375)	(5,763)
Other assets	(1,460)	1,651
Income taxes, net	21,088	(87,180)
Accounts payable	6,658	7,526
Accrued expenses and other current liabilities	(674)	53,846
Deferred revenues	(47,982)	(8,183)
Other liabilities	5,400	(1,113)
Total changes in operating assets and liabilities, net of the effects of acquisitions	174,814	138,984
Net cash provided by operating activities	752,813	655,550
Investing Activities		
Purchases of available-for-sale investments	(1,806,781)	(1,891,045)
Proceeds from sales of available-for-sale investments	1,552,983	1,342,500
Proceeds from maturities of available-for-sale investments	518,755	282,711
Purchases of property and equipment	(119,591)	(115,442)
(Purchases) proceeds from cost method investments, net	(3,400)	1,084
Cash paid for acquisitions, net of cash acquired	(250,986)	(43,342)
Cash paid for licensing agreements and product related intangible assets	(10,666)	(12,712)
Net cash used in investing activities	(119,686)	(436,246)
Financing Activities		
Proceeds from issuance of common stock under stock-based compensation plans	79,338	38,674
Proceeds from issuance of convertible notes, net of issuance costs	—	1,415,717
Purchase of convertible note hedges	—	(184,288)
Proceeds from issuance of warrants	—	101,775
Proceeds from credit facility	95,000	—
Repayment of credit facility	(95,000)	—
Repayment of acquired debt	(7,569)	(3,766)
Excess tax benefit from stock-based compensation	2,236	5,122
Stock repurchases, net	(398,070)	(1,600,986)

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Cash paid for tax withholding on vested stock awards	(32,351	) (27,777)
Net cash used in financing activities	(356,416	) (255,529)
Effect of exchange rate changes on cash and cash equivalents	(9,266	) (1,728)
Change in cash and cash equivalents	267,445	(37,953)
Cash and cash equivalents at beginning of period	260,149	280,740	
Cash and cash equivalents at end of period	\$527,594	\$242,787	
See accompanying notes.			

6

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 notes required by accounting principles generally accepted in the United States for complete financial statements. All adjustments, which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown, are of a normal recurring nature and have been reflected in the condensed consolidated financial statements and accompanying notes. The results of operations for the periods presented are not necessarily indicative of the results expected for the full year or for any future period partially because of the seasonality of the Company’s business. Historically, the Company’s revenue for the fourth quarter of any year is typically higher than the revenue for the first quarter of the subsequent year. The information included in these condensed consolidated financial statements should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in this report and the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

The condensed consolidated financial statements of the Company include the accounts of its wholly-owned subsidiaries in the Americas, Europe, the Middle East and Africa (“EMEA”), and Asia-Pacific. All significant transactions and balances between the Company and its subsidiaries have been eliminated in consolidation.

The Company’s revenues are derived from its Enterprise and Service Provider products, which primarily include its Workspace Services products, Delivery Networking products and related license updates and maintenance and professional services and from its Mobility Apps products, which primarily include Communications Cloud and Workflow Cloud products. Enterprise and Service Provider and Mobility Apps business units constitute the Company’s two reportable segments. See Note 9 for more information on the Company’s segments.

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. Significant estimates made by management include the provision for doubtful accounts receivable, the provision to reduce obsolete or excess inventory to market, the provision for estimated returns, as well as sales allowances, the assumptions used in the valuation of stock-based awards, the assumptions used in the discounted cash flows to mark certain of its investments to market, the valuation of the Company’s goodwill, net realizable value of product related and other intangible assets, the fair value of convertible senior notes, the provision for income taxes and the amortization and depreciation periods for intangible and long-lived assets. While the Company believes that such estimates are fair when considered in conjunction with the condensed consolidated financial position and results of operations taken as a whole, the actual amounts of such items, when known, will vary from these estimates.

Available-for-sale Investments

Short-term and long-term available-for-sale investments as of September 30, 2015 and December 31, 2014 primarily consist of agency securities, corporate securities, municipal securities and government securities. Investments classified as available-for-sale are stated at fair value with unrealized gains and losses, net of taxes, reported in Accumulated other comprehensive loss. The Company classifies its available-for-sale investments as current and non-current based on their actual remaining time to maturity. The Company does not recognize changes in the fair value of its available-for-sale investments in income unless a decline in value is considered other-than-temporary in accordance with the authoritative guidance.

The Company’s investment policy is designed to limit exposure to any one issuer depending on credit quality. The Company uses information provided by third parties to adjust the carrying value of certain of its investments to fair

value at the end of each period. Fair values are based on a variety of inputs and may include interest rates, known historical trades, yield curve information, benchmark data, prepayment speeds, credit quality and broker/dealer quotes. See Note 5 for investment information.

7

Revenue Recognition

Net revenues include the following categories: Product and licenses, SaaS, License updates and maintenance and Professional services. Product and licenses revenues primarily represent fees related to the licensing of the Company's software and hardware appliances. These revenues are reflected net of sales allowances, cooperative advertising agreements, partner incentive programs and provisions for returns. SaaS revenues consist primarily of fees related to online service agreements, which are recognized ratably over the contract term, which is typically 12 months. In addition, SaaS revenues may also include set-up fees, which are recognized ratably over the contract term or the expected customer life, whichever is longer. License updates and maintenance revenues consist of fees related to the Subscription Advantage program and maintenance fees, which include technical support and hardware and software maintenance. 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. Subscription Advantage and maintenance fees are recognized ratably over the term of the contract, which is typically 12 to 24 months. The Company capitalizes certain third-party commissions related to Subscription Advantage, maintenance and support renewals. The capitalized commissions are amortized to Sales, marketing and services expense at the time the related deferred revenue is recognized as revenue. Hardware and software maintenance and support contracts are typically sold separately. Hardware maintenance includes technical support, the latest software upgrades and replacement of malfunctioning appliances. Dedicated account management is available as an add-on to the program for a higher level of service. Software maintenance includes unlimited technical support, immediate access to software upgrades, enhancements and maintenance releases when and if they become available during the term of the contract. Professional services revenues are comprised of fees from consulting services related to the implementation of the Company's products and fees from product training and certification, which are recognized as the services are provided.

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

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

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

The estimate of selling price is established considering multiple factors including, but not limited to, pricing practices in different geographies and through different sales channels and competitor pricing strategies.

Our Citrix Service Provider ("CSP") program provides subscription-based services in which the CSP partners host software services to their end users. The fees from the CSP program are recognized based on usage and as the CSP services are provided to their end users.

For the Company's non-software transactions, it allocates the arrangement consideration based on the relative selling price of the deliverables. For the Company's hardware appliances, it uses ESP as its selling price. For the Company's support and services, it generally uses VSOE as its selling price. When the Company is unable to establish selling price using VSOE for its support and services, the Company uses ESP in its allocation of arrangement consideration.

The Company's Mobility Apps products are considered hosted service arrangements per the authoritative guidance, or SaaS. Generally, the Company's Mobility Apps products are sold separately and not bundled with the Enterprise and Service Provider business unit's products and services.

In the normal course of business, the Company is not obligated to accept product returns from its distributors under any conditions, unless the product item is defective in manufacture. The Company establishes provisions for estimated returns, as well as other sales allowances, concurrently with the recognition of revenue. The provisions are established based upon consideration of a variety of factors, including, among other things, recent and historical return rates for both specific products and distributors and the impact of any new product releases and projected economic conditions. Product returns are provided for in the condensed consolidated financial statements and have historically been within management's expectations. Allowances for estimated product returns amounted to approximately \$1.1 million and \$2.2 million at September 30, 2015 and December 31, 2014, respectively. The Company also records estimated reductions to revenue for customer programs and incentive offerings, including volume-based incentives. The Company could take actions to increase its customer incentive offerings, which could result in an incremental reduction to revenue at the time the incentive is offered.

Foreign Currency

The functional currency for all of the Company's wholly-owned foreign subsidiaries is the U.S. dollar. Monetary assets and liabilities of such subsidiaries are remeasured into U.S. dollars at exchange rates in effect at the balance sheet date, and revenues and expenses are remeasured at average rates prevailing during the year. Effective January 1, 2015, the functional currency of the Company's wholly-owned foreign subsidiaries of its Mobility Apps business unit became the U.S. dollar as a result of a reorganization in the foreign subsidiaries' operations. Prior to January 1, 2015, the functional currency of the Company's wholly-owned foreign subsidiaries of its Mobility Apps business unit was the currency of the country in which each subsidiary is located. The Company translated assets and liabilities of these foreign subsidiaries at exchange rates in effect at the balance sheet date and included accumulated net translation adjustments in equity as a component of Accumulated other comprehensive loss. The change in functional currency is applied on a prospective basis, therefore any gains and losses that were previously recorded in Accumulated other comprehensive loss remain unchanged from January 1, 2015. Foreign currency transaction gains and losses are the result of exchange rate changes on transactions denominated in currencies other than the functional currency, including U.S. dollars. The remeasurement of those foreign currency transactions is included in determining net income or loss for the period of exchange. See Note 9 for information on the Company's Enterprise and Service Provider and Mobility Apps business units.

Accounting for Stock-Based Compensation Plans

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

3. 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 or settlement of stock awards (calculated using the treasury stock method) during the period they were outstanding.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Numerator:				
Net income	\$55,925	\$47,532	\$188,087	\$156,495
Denominator:				
Denominator for basic earnings per share - weighted-average shares outstanding	160,359	164,229	160,359	172,622
Effect of dilutive employee stock awards	1,418	1,484	1,357	1,401
Denominator for diluted earnings per share - weighted-average shares outstanding	161,777	165,713	161,716	174,023
Basic earnings per share	\$0.35	\$0.29	\$1.17	\$0.91
Diluted earnings per share	\$0.35	\$0.29	\$1.16	\$0.90
Anti-dilutive weighted-average shares from stock awards	1,572	2,807	2,416	3,287

The weighted-average number of shares outstanding used in the computation of basic and diluted earnings per share does not include the effect of the potential outstanding common stock from the Company's convertible senior notes and warrants. The effects of these potentially outstanding shares were not included in the calculation of diluted earnings per share because the effect would have been anti-dilutive.

The Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on its Convertible Senior Notes (the "Convertible Notes") on diluted earnings per share, if applicable, as upon conversion, the Company will pay cash up to the aggregate principal amount of the Convertible Notes to be converted and pay or deliver, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock, at the Company's election, in respect of the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the Convertible Notes being converted. The conversion spread will have a dilutive impact on diluted earnings per share when the average market price of the Company's common shares for a given period exceeds the conversion price of \$90.00 per share. For the three and nine months ended September 30, 2015, the Convertible Notes have been excluded from the computation of diluted earnings per share as the effect would be anti-dilutive since the conversion price of the Convertible Notes exceeded the average market price of the Company's common stock. In addition, the Company uses the treasury stock method for calculating any potential dilutive effect related to the warrants. See Note 10 to the Company's condensed consolidated financial statements for detailed information on the Convertible Notes offering.

4. ACQUISITIONS

2015 Acquisitions

Sanbolic

On January 8, 2015, the Company acquired all of the issued and outstanding securities of Sanbolic, Inc. ("Sanbolic"). Sanbolic is an innovator and leader in workload-oriented storage virtualization technologies. The Sanbolic technology, combined with XenDesktop, XenApp, and XenMobile products will enable the Company to develop a range of differentiated solutions that will reduce the complexity of Microsoft Windows application delivery and desktop virtualization deployments. Sanbolic became part of the Company's Enterprise and Service Provider segment. The total cash consideration for this transaction was approximately \$89.4 million, net of \$0.2 million cash acquired. Transaction costs associated with the acquisition were \$0.5 million. No transaction costs were recorded during the three months ended September 30, 2015 and the Company expensed \$0.2 million during the nine months ended September 30, 2015, which is included in General and administrative expense in the accompanying condensed

consolidated statements of income. In addition, in connection with the acquisition, the Company assumed non-vested stock units which were converted into the right to receive, in the aggregate, up to 37,057 shares of the Company's common stock, for which the vesting period began on the closing of the transaction.

Grasshopper

On May 18, 2015, the Company acquired all of the membership interests of Grasshopper Group, LLC (“Grasshopper”), a leading provider of cloud-based phone solutions for small businesses. With the acquisition, the Company will expand its breadth of communication and collaboration solutions for small businesses, including GoToMeeting, GoToTraining, GoToWebinar, OpenVoice and ShareFile. Grasshopper became part of the Mobility Apps segment. Total cash consideration for this transaction was approximately \$161.5 million, net of \$3.6 million cash acquired. Transaction costs associated with the acquisition were \$0.3 million. No transaction costs were recorded during the three months ended September 30, 2015 and the Company expensed \$0.3 million during the nine months ended September 30, 2015, which is included in General and administrative expense in the accompanying condensed consolidated statements of income. In addition, in connection with the acquisition, the Company assumed non-vested stock units which were converted into the right to receive, in the aggregate, up to 105,765 shares of the Company's common stock, for which the vesting period commenced on the closing of the transaction.

Purchase Accounting for the 2015 Acquisitions

The purchase prices for companies acquired during the nine months ended September 30, 2015, which include Sanbolic and Grasshopper (collectively, the "2015 Acquisitions"), were allocated to the acquired net tangible and intangible assets based on estimated fair values as of the date of each acquisition. The allocation of the total purchase prices is summarized below (in thousands):

	Sanbolic Purchase Price Allocation	Asset Life	Grasshopper Purchase Price Allocation	Asset Life
Current assets	\$581		\$4,818	
Property and equipment	—		467	Various
Intangible assets	45,300	Various	71,400	Various
Goodwill	61,639	Indefinite	99,686	Indefinite
Other assets	—		80	
Assets acquired	107,520		176,451	
Current liabilities assumed	1,454		11,181	
Long-term liabilities assumed	3,175		158	
Deferred tax liabilities, non-current	13,295		—	
Net assets acquired	\$89,596		\$165,112	

The company continues to evaluate certain income tax assets and liabilities related to the Sanbolic acquisition. Current assets acquired in connection with the 2015 Acquisitions consisted primarily of cash, accounts receivable, deferred tax assets and other short term assets. Current liabilities assumed in connection with the 2015 Acquisitions consisted primarily of accounts payable, other accrued expenses and short-term debt. Long-term liabilities assumed in connection with the 2015 Acquisitions consisted of long-term debt and other long-term liabilities. Both short-term and long-term debt were paid in full subsequent to the Sanbolic and Grasshopper acquisition dates.

Goodwill from the Sanbolic acquisition was assigned to the Enterprise and Service Provider segment whereas goodwill from the Grasshopper acquisition was assigned to the Mobility Apps segment. The goodwill related to the Sanbolic acquisition is not deductible for tax purposes and the goodwill related to the Grasshopper acquisition is deductible for tax purposes. See Note 9 for segment information. The goodwill amount from the 2015 Acquisitions is comprised primarily of expected synergies from combining operations and other intangible assets that do not qualify for separate recognition.

Revenue from the Sanbolic acquisition is included in the Enterprise and Service Provider segment and revenue from the Grasshopper acquisition is included in the Mobility Apps segment. The Company has included the effect of the 2015 Acquisitions in its results of operations prospectively from the respective dates of acquisitions.

Identifiable intangible assets acquired in connection with the 2015 Acquisitions (in thousands) and the weighted-average lives are as follows:

	Sanbolic	Asset Life	Grasshopper	Asset Life
Core and product technologies	\$43,800	5 and 6 years	\$25,000	7 years
Customer relationships	1,500	2 years	37,900	5 years
Telecommunication carrier relationships	—		7,900	2 years
Trade name	—		600	2 years
Total	\$45,300		\$71,400	

The following unaudited pro-forma information combines the consolidated results of the operations of the Company and the 2015 Acquisitions as if the acquisitions had occurred on January 1, 2014, the first day of the Company's fiscal year 2014 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues	\$813,309	\$766,282	\$2,384,428	\$2,310,979
Income from operations	63,837	53,260	229,379	166,384
Net income	55,949	44,005	182,685	144,398
Per share - basic	0.35	0.27	1.14	0.84
Per share - diluted	0.35	0.27	1.13	0.83

2014 Acquisitions

Framehawk

In January 2014, the Company acquired all of the issued and outstanding securities of Framehawk, Inc. ("Framehawk"). The Framehawk solution, which optimizes the delivery of virtual desktops and applications to mobile devices, was combined with HDX technology in the Citrix XenApp and XenDesktop products to deliver an improved user experience under adverse network conditions. Framehawk became part of the Company's Enterprise and Service Provider segment. The total cash consideration for this transaction was approximately \$24.2 million, net of \$0.2 million of cash acquired. Transaction costs associated with the acquisition were approximately \$0.1 million, all of which the Company expensed during the nine months ended September 30, 2014 and are included in General and administrative expense in the accompanying condensed consolidated statements of income.

RightSignature

In October 2014, the Company acquired all of the membership interests of RightSignature, LLC. ("RightSignature"). The RightSignature technology expands the Workflow Cloud beyond storage and file transfer to supporting e-signature and approval workflows. RightSignature became a part of the Company's Mobility Apps segment. The total cash consideration for this transaction was approximately \$37.8 million, net of \$1.1 million of cash acquired. Transaction costs associated with the acquisition were approximately \$0.2 million, of which the Company expensed \$0.1 million during the nine months ended September 30, 2014 and are included in General and administrative expense in the accompanying condensed consolidated statements of income. In addition, in connection with the acquisition, the Company assumed non-vested stock units which were converted into the right to receive, in the aggregate, up to 67,500 of the Company's common stock, for which the vesting period began on the closing of the transaction.

2014 Other Acquisitions

During the second quarter of 2014, the Company acquired all of the issued and outstanding securities of a privately-held company. The total cash consideration for this transaction was approximately \$17.2 million, net of \$0.8 million of cash acquired. This business became part of the Company's Enterprise and Service Provider segment. Transaction costs associated with the acquisition were approximately \$0.1 million, all of which the Company expensed during the nine months ended September 30, 2014 and are included in General and administrative expense in the accompanying condensed consolidated statements of income.

In the fourth quarter of 2014, the Company acquired all of the issued and outstanding securities of two privately-held companies for total cash consideration of approximately \$19.9 million, net of \$0.2 million of cash acquired. The businesses became part of the Company's Enterprise and Service Provider segment. In addition, in connection with one of the acquisitions, the Company assumed non-vested stock units which were converted into the right to receive, in the aggregate, up to 23,430 shares of the Company's common stock, for which the vesting period began on the closing of the transaction. Transaction costs associated with the acquisitions were not significant.

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, 2015				December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Agency securities	\$577,539	\$1,422	\$(80)	\$578,881	\$637,474	\$1,296	\$(457)	\$638,313
Corporate securities	679,887	396	(928)	679,355	795,255	232	(1,372)	794,115
Municipal securities	15,466	28	(1)	15,493	48,744	17	(31)	48,730
Government securities	63,596	143	—	63,739	121,431	37	(256)	121,212
Total	\$1,336,488	\$1,989	\$(1,009)	\$1,337,468	\$1,602,904	\$1,582	\$(2,116)	\$1,602,370

The change in net unrealized gains (losses) on available-for-sale securities recorded in Other comprehensive (loss) income includes unrealized gains (losses) that arose from changes in market value of specifically identified securities that were held during the period, gains (losses) that were previously unrealized, but have been recognized in current period net income due to sales, as well as prepayments of available-for-sale investments purchased at a premium. This reclassification has no effect on total comprehensive income or equity and was not material for all periods presented. See Note 13 for more information related to comprehensive income.

The average remaining maturities of the Company's short-term and long-term available-for-sale investments at September 30, 2015 were approximately six months and three years, respectively.

Realized Gains and Losses on Available-for-sale Investments

For the three and nine months ended September 30, 2015, the Company received proceeds from the sales of available-for-sale investments of \$718.4 million and \$1.55 billion, respectively, and for the three and nine months ended September 30, 2014, it received proceeds from the sales of available-for-sale investments of \$469.6 million and \$1.34 billion, respectively.

The Company had realized gains on the sales of available-for-sale investments during the three and nine months ended September 30, 2015 of \$0.3 million and \$0.7 million, respectively, and for the three and nine months ended September 30, 2014, it had realized gains on the sales of available-for-sale investments of \$0.2 million and \$1.4 million, respectively.

For the three and nine months ended September 30, 2015, the Company had realized losses on available-for-sale investments of \$0.6 million and \$0.9 million, respectively, and for the three and nine months ended September 30, 2014, it had realized losses on available-for-sale investments of \$0.1 million and \$0.4 million, respectively, primarily related to prepayments at par of securities purchased at a premium.

All realized gains and losses related to the sales of available-for-sale investments are included in Other expense, net, in the accompanying condensed consolidated statements of income.

Unrealized Losses on Available-for-Sale Investments

The gross unrealized losses on the Company's available-for-sale investments that are not deemed to be other-than-temporarily impaired as of September 30, 2015 and December 31, 2014 were \$1.0 million and \$2.1 million, respectively. Because the Company does not intend to sell any of its investments in an unrealized loss

position and it is more likely than not that it will not be required to sell the securities before the recovery of its amortized cost basis, which may not occur until maturity, it does not consider the securities to be other-than-temporarily impaired.

Cost Method Investments

The Company held direct investments in privately-held companies of approximately \$17.2 million and \$16.6 million as of September 30, 2015 and December 31, 2014, respectively, which are accounted for based on the cost method and are included in Other assets in the accompanying condensed consolidated balance sheets. The Company periodically reviews these investments for impairment. If the Company determines that an other-than-temporary impairment has occurred, it will write-down the investment to its fair value. For the three months ended September 30, 2015, no cost method investments were determined to be impaired. For the nine months ended September 30, 2015, the Company determined that certain cost method investments were impaired and recorded a charge of \$3.0 million which was included in Other expense, net in the accompanying condensed consolidated statements of income. For the three and nine months ended September 30, 2014, the Company determined that certain cost method investments were impaired and recorded a charge of \$3.2 million and \$8.3 million, respectively, which were included in Other expense, net in the accompanying condensed consolidated statements of income.

During the three and nine months ended September 30, 2015, no gains were recorded on cost method investments.

During the three and nine months ended September 30, 2014, certain early-stage entities in which the Company held direct investments were acquired by third parties and as a result of such sale transactions, the Company recorded gains of \$1.2 million and \$2.7 million, respectively, which were included in Other expense, net in the accompanying condensed consolidated statements of income.

6. FAIR VALUE MEASUREMENTS

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

- Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Available-for-sale securities included in Level 2 are valued utilizing inputs obtained from an independent pricing service (the "Service") which uses quoted market prices for identical or comparable instruments rather than direct observations of quoted prices in active markets. The Service applies a four level hierarchical pricing methodology to all of the Company's fixed income securities based on the circumstances. The hierarchy starts with the highest priority pricing source, then subsequently uses inputs obtained from other third-party sources and large custodial institutions. The Service's providers utilize a variety of inputs to determine their quoted prices. These inputs may include interest rates, known historical trades, yield curve information, benchmark data, prepayment speeds, credit quality and broker/dealer quotes. Substantially all of the Company's available-for-sale investments are valued utilizing inputs obtained from the Service and accordingly are categorized as Level 2 in the table below. The Company periodically independently assesses the pricing obtained from the Service and historically has not adjusted the Service's pricing as a result of this assessment. Available-for-sale securities are included in Level 3 when relevant observable inputs for a security are not available.

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	As of September 30, 2015	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Assets:				
Cash and cash equivalents:				
Cash	\$295,170	\$ 295,170	\$ —	\$ —
Money market funds	220,004	220,004	—	—
Corporate securities	12,420	—	12,420	—
Available-for-sale securities:				
Agency securities	578,881	—	578,881	—
Corporate securities	679,355	—	673,193	6,162
Municipal securities	15,493	—	15,493	—
Government securities	63,739	—	63,739	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	1,191	—	1,191	—
Total assets	\$1,866,253	\$ 515,174	\$ 1,344,917	\$ 6,162
Accrued expenses and other current liabilities:				
Foreign currency derivatives	3,783	—	3,783	—
Total liabilities	\$3,783	\$ —	\$ 3,783	\$ —
	As of December 31, 2014	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Assets:				
Cash and cash equivalents:				
Cash	\$230,370	\$ 230,370	\$ —	\$ —
Money market funds	29,512	29,512	—	—
Corporate securities	267	—	267	—
Available-for-sale securities:				
Agency securities	638,313	—	638,313	—
Corporate securities	794,115	—	788,042	6,073
Municipal securities	48,730	—	48,730	—
Government securities	121,212	—	121,212	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	1,206	—	1,206	—
Total assets	\$1,863,725	\$ 259,882	\$ 1,597,770	\$ 6,073
Accrued expenses and other current liabilities:				
Foreign currency derivatives	9,692	—	9,692	—
Total liabilities	\$9,692	\$ —	\$ 9,692	\$ —

The Company's fixed income available-for-sale security portfolio generally consists of investment grade securities from diverse issuers with a minimum credit rating of A-/A3 and a weighted-average credit rating of AA-/Aa3. The Company values these securities based on pricing from the Service, whose sources may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or

indirectly (Level 2 inputs) in determining fair value, and accordingly, the Company classifies all of its fixed income available-for-sale securities as Level 2.

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

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

The Company has invested in convertible debt securities of certain early-stage entities that are classified as available-for-sale investments. As quoted prices in active markets or other observable inputs were not available for these investments, in order to measure them at fair value, the Company utilized a discounted cash flow model using a discount rate reflecting the market risk inherent in holding securities of an early-stage enterprise, adjusted by the probability-weighted exit possibilities associated with the convertible debt securities. This methodology required the Company to make assumptions that were not directly or indirectly observable regarding the fair value of the convertible debt securities; accordingly they are a Level 3 valuation and are included in the table below.

	Corporate Securities (In thousands)
Balance at December 31, 2014	\$6,073
Purchases of Level 3 securities	1,475
Proceeds received on Level 3 securities	(101)
Total net realized losses included in earnings	(838)
Transfers out of Level 3	(447)
Balance at September 30, 2015	\$6,162

Transfers out of Level 3 relate to certain of the Company's investments in convertible debt securities of early-stage entities that were reclassified from available-for-sale investments to cost method investments upon conversion to equity ownership. These amounts are included in Other assets in the accompanying consolidated balance sheets. Realized losses included in earnings for the period are reported in Other expense, net in the accompanying consolidated statements of income.

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

During the nine months ended September 30, 2015, certain cost method investments with a combined carrying value of \$3.0 million were determined to be impaired and written down to zero. The impairment charge is included in Other expense, net in the accompanying condensed consolidated financial statements. For the nine months ended September 30, 2014, the Company determined that certain cost method investments were impaired and recorded a charge of \$8.3 million which was included in Other expense, net in the accompanying condensed consolidated financial statements. In determining the fair value of cost method investments, the Company considers many factors including but not limited to operating performance of the investee, the amount of cash that the investee has on-hand, the ability to obtain additional financing and the overall market conditions in which the investee operates. The fair value of the cost method investments represent a Level 3 valuation as the assumptions used in valuing these investments were not directly or indirectly observable.

For certain intangible assets where the unamortized balances exceeded the undiscounted future net cash flows, the Company measures the amount of the impairment by calculating the amount by which the carrying values exceed the estimated fair values, which are based on projected discounted future net cash flows. These non-recurring fair value measurements are categorized as Level 3 significant unobservable inputs. See Note 8 to the Company's condensed consolidated financial statements for detailed information related to Goodwill and Other Intangible Assets.

Additional Disclosures Regarding Fair Value Measurements

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

As of September 30, 2015, the fair value of the Convertible Notes, which was determined based on inputs that are observable in the market (Level 2) based on the closing trading price per \$100 as of the last day of trading for the quarter ended September 30, 2015, and carrying value of debt instruments (carrying value excludes the equity component of the Company's Convertible Notes classified in equity) was as follows (in thousands):

	Fair Value	Carrying Value
Convertible Senior Notes	\$1,541,719	\$1,316,892

7. STOCK-BASED COMPENSATION

The Company's stock-based compensation program is a long-term retention program that is intended to attract and reward talented employees and align stockholder and employee interests. As of September 30, 2015, 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 2014 Equity Incentive Plan (the "2014 Plan"). In December 2014, the Company's Board of Directors approved the 2015 Employee Stock Purchase Plan (the "2015 ESPP"), which was approved by stockholders at the Company's Annual Meeting of Stockholders held on May 28, 2015. The 2015 ESPP has replaced the Company's Amended and Restated 2005 Employee Stock Purchase Plan (as amended, the "2005 ESPP"). In connection with certain of the Company's acquisitions, the Company has assumed certain plans from acquired companies. The Company's Board of Directors has provided that no new awards will be granted under the Company's acquired stock plans. Awards previously granted under the Company's superseded and expired stock plans that are still outstanding typically expire between five and ten years from the date of grant and will continue to be subject to all the terms and conditions of such plans, as applicable. The Company's superseded and expired stock plans include the Amended and Restated 1995 Stock Plan and the Amended and Restated 2005 Equity Incentive Plan and the 2005 ESPP.

Under the terms of the 2014 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 to consultants and non-employee directors of the Company. SARs and ISOs are not currently being granted. Currently, the 2014 Plan provides for the issuance of 29,000,000 shares of common stock. In addition, shares of common stock underlying any awards granted under the Company's Amended and Restated 2005 Equity Incentive Plan, as amended, that are forfeited, canceled or otherwise terminated (other than by exercise) are added to its shares of common stock available for issuance under the 2014 Plan. Under the 2014 Plan, NSOs must be granted at exercise prices no less than fair market value on the date of grant. 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. Stock-based awards are generally exercisable or issuable upon vesting. The Company's policy is to recognize compensation cost for awards with only service conditions and a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. As of September 30, 2015, there were 28,949,258 shares of common stock reserved for issuance pursuant to the Company's stock-based compensation plans and the Company had authorization under its 2014 Plan to grant stock-based awards covering 21,163,715 shares of common stock.

Under the 2015 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 2015 ESPP, would own shares representing 5% or more of the voting power of the Company's common stock, are ineligible to continue to participate under the 2015 ESPP. The 2015 ESPP provides for the issuance of a maximum of 16,000,000 shares of common stock. As of September 30, 2015, 3,872,661 shares had been issued under the 2005 ESPP. As of September 30, 2015, 245,029 shares have been issued under the 2015 ESPP. The Company recorded stock-based compensation costs related to its employee stock purchase plans of \$2.3 million and \$5.2 million for the three and nine months ended September 30, 2015, respectively, and the Company recorded stock-based compensation costs of \$1.3 million and \$4.0 million for the three and nine months ended September 30, 2014, respectively. Effective with the Payment Period beginning in July 2015, the purchase price to participating employees will be 85% of the fair market value of the Company's common stock, on either the first business day of the Payment Period or the last business day of the Payment Period, whichever is lower.

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

The Company used the Black-Scholes model to estimate the fair value of its Employee Stock Purchase Plan awards with the following weighted-average assumptions:

	Three Months Ended September 30, 2015	
Expected volatility factor	0.35	
Risk free interest rate	0.25	%
Expected dividend yield	0	%
Expected life (in years)	0.5	

17

The Company determined the expected volatility factor by considering the implied volatility in six-month market-traded options of the Company's common stock based on third party volatility quotes. 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 risk-free interest rate was based on a U.S. Treasury instrument whose term is consistent with the expected term of the stock options. The Company's expected dividend yield input was zero as it has not historically paid, nor expects in the future to pay, cash dividends on its common stock. The expected term is based on the term of the purchase period for grants made under the ESPP.

Stock-Based Compensation

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Income Statement Classifications				
Cost of services and maintenance revenues	\$ 803	\$ 673	\$2,095	\$1,854
Research and development	9,118	13,989	31,454	42,102
Sales, marketing and services	16,922	15,073	38,083	46,885
General and administrative	11,828	12,714	32,042	37,599
Total	\$ 38,671	\$ 42,449	\$103,674	\$128,440

Non-vested Stock Units

Market Performance and Service Condition Stock Units

In March 2015 and 2014, the Company granted senior level employees non-vested stock unit awards representing, in the aggregate, 393,464 and 378,022 non-vested stock units, respectively, that vest based on certain target market performance and service conditions. The number of non-vested stock units underlying each award will be determined within sixty days of the calendar year following the end of a three-year performance period ending December 31, 2017 for the March 2015 awards and December 31, 2016 for the March 2014 awards. The attainment level under the award will be based on the Company's total return to stockholders over the performance period compared to the return on the Nasdaq Composite Total Return Index (the "XCMP"). If the Company's return is positive and meets or exceeds the indexed return, the number of non-vested stock units issued will be based on interpolation, with the maximum number of non-vested stock units issuable pursuant to the award capped at 200% of the target number of non-vested stock units set forth in the award agreement if the Company's return exceeds the indexed return by 40% or more. If the Company's return over the performance period is positive but underperforms the index, a number of non-vested stock units will be issued, below the target award, based on interpolation; however, no non-vested stock units will be issued if the Company's return underperforms the index by more than 20% over the performance period. In the event the Company's return to stockholders is negative but still meets or exceeds the indexed return, only 75% of the target award shall be issued. If the awardee is not employed by the Company at the end of the performance period; the extent to which the awardee will vest in the award, if at all, is dependent upon the timing and character of the termination as provided in the award agreement. Each non-vested stock unit, upon vesting, represents the right to receive one share of the Company's common stock.

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 non-vested performance stock unit awards was determined through the use of a Monte Carlo simulation model, which utilized multiple input variables that determined the probability of satisfying the market condition requirements applicable to each award as follows:

	March 2015 Grant	March 2014 Grant	
Expected volatility factor	0.14 - 0.29	0.19 - 0.38	
Risk free interest rate	0.85	%0.81	%

Expected dividend yield 0 %0 %

The range of expected volatilities utilized was based on the historical volatilities of the Company's common stock and the XCMP. The Company chose to use historical volatility to value these awards because historical stock prices were used to develop the correlation coefficients between the Company and the XCMP in order to model the stock price movements. The

18

volatilities used were calculated over a 2.76 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 as of the date of grant was \$61.01 for the March 2015 grant and \$56.94 for the March 2014 grant.

Service Based Stock Units

The Company also awards senior level, certain other employees and new non-employee directors non-vested stock units granted under the 2014 Plan that vest based on service. These non-vested stock unit awards generally vest 33.33% on each anniversary subsequent to the date of the award. The Company also assumes non-vested stock units in connection with certain of its acquisitions. The assumed awards have the same three year vesting schedule. Each non-vested stock unit, upon vesting, represents 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 continuing non-employee directors. These awards vest monthly in 12 equal installments based on service and, upon vesting, each stock unit represents the right to receive one share of the Company's common stock.

Unrecognized Compensation Related to Stock Units

As of September 30, 2015, the number of all non-vested stock units outstanding, including market performance and service condition awards and service-based awards, including service-based awards assumed in connection with acquisitions, were 5,633,512. As of September 30, 2015, there was \$264.2 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 1.93 years. See Note 4 for more information regarding the Company's acquisitions.

Stock Options

Stock options granted under the 2014 Plan typically have a five-year life and vest over three years, with 33.3% of the shares underlying the option vesting on the first anniversary of the date of grant and the remainder of the underlying shares vesting in equal monthly installments at a rate of 2.78% thereafter (the "Standard Vesting Rate"). The Company may assume stock options from certain of its acquisitions for which the vesting period is typically reset to vest over three years at the Standard Vesting Rate. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. There were no stock options granted or assumed during the three and nine months ended September 30, 2015 and 2014.

The total intrinsic value of options exercised during the three and nine months ended September 30, 2015 was \$4.4 million and \$18.2 million, respectively and the total intrinsic value of options exercised during the three and nine months ended September 30, 2014 was \$11.3 million and \$31.3 million. The intrinsic value is calculated as the difference between the market value on the date of exercise and the exercise price of the shares. As of September 30, 2015, there was \$0.4 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 0.36 years.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The Company accounts for goodwill in accordance with the authoritative guidance, which requires that goodwill and certain intangible assets are not amortized, but are subject to an annual impairment test. There was no impairment of goodwill or indefinite lived intangible assets as a result of the annual impairment test analysis completed during the fourth quarter of 2014. There were no indicators of impairment during the nine months ended September 30, 2015. In-process R&D acquired in connection with the Company's acquisitions was not significant. See Note 4 for more information regarding the Company's acquisitions and Note 9 for more information regarding the Company's segments.

The following table presents the change in goodwill allocated to the Company's reportable segments during the nine months ended September 30, 2015 (in thousands):

Balance at January 1, 2015	Additions	Other	Balance at September 30, 2015
----------------------------------	-----------	-------	-------------------------------------

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Enterprise and Service Provider	\$1,434,369	\$61,639	\$(740	)	(2)	\$1,495,268
Mobility Apps	362,482	99,686	—			462,168
Consolidated	\$1,796,851	\$161,325	(1)	\$(740	)	\$1,957,436

(1) Amounts relate to 2015 acquisitions. See Note 4 for more information regarding the Company's acquisitions.

(2) Amount relates to adjustments to the preliminary purchase price allocation associated with 2014 acquisitions.

Intangible Assets

The Company has intangible assets which were primarily acquired in conjunction with business combinations and technology purchases. Intangible assets with finite lives are recorded at cost, less accumulated amortization.

Amortization is computed over the estimated useful lives of the respective assets, generally three to seven years, except for patents, which are amortized over the lesser of their remaining life or ten years. In-process R&D is initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When in-process R&D projects are completed, the corresponding amount is reclassified as an amortizable intangible asset and is amortized over the asset's estimated useful life.

Intangible assets consist of the following (in thousands):

	September 30, 2015		December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Product related intangible assets	\$683,695	\$500,282	\$618,336	\$454,830
Other	455,862	273,227	492,960	265,749
Total	\$1,139,557	\$773,509	\$1,111,296	\$720,579

Amortization of product related intangible assets, which consists primarily of product-related technologies and patents, was \$20.1 million and \$24.0 million for the three months ended September 30, 2015 and 2014, respectively, and \$57.6 million and \$102.7 million for the nine months ended September 30, 2015 and 2014, respectively, and is classified as a component of Cost of net revenues in the accompanying condensed consolidated statements of income. Amortization and impairment of other intangible assets, which consist primarily of customer relationships, trade names and covenants not to compete was \$76.9 million and \$10.0 million for the three months ended September 30, 2015 and 2014, respectively, and \$97.4 million and \$32.9 million for the nine months ended September 30, 2015 and 2014, respectively, and is classified as a component of Operating expenses in the accompanying condensed consolidated statements of income.

The Company monitors its intangible assets for indicators of impairment. If the Company determines that an impairment has occurred, it will write-down the intangible asset to its fair value. For certain intangible assets where the unamortized balances exceeded the undiscounted future net cash flows, the Company measures the amount of the impairment by calculating the amount by which the carrying values exceed the estimated fair values, which are based on projected discounted future net cash flows. During the nine months ended September 30, 2015, due to disruptions in the business as a result of the announced plan to explore strategic alternatives, the Company identified certain definite-lived intangible assets, primarily customer relationships from the acquisition of ByteMobile, that were impaired within our Enterprise and Service Provider business unit and recorded non-cash impairment charges of \$65.4 million to write down the intangible assets to their estimated fair value of \$27.6 million. Of the impairment charge, \$64.4 million is included in Amortization and impairment of other intangible assets and \$1.0 million is included in Amortization of product related intangible assets in the accompanying condensed consolidated statements of income. This non-recurring fair value measurement was categorized as Level 3, as significant unobservable inputs were used in the valuation analysis. Key assumptions used in the valuation include forecasts of revenue and expenses over an extended period of time, customer retention rates, tax rates, and estimated costs of debt and equity capital to discount the projected cash flows. Certain of these assumptions involve significant judgment, are based on management's estimate of current and forecasted market conditions and are sensitive and susceptible to change, therefore, further disruptions in the business could result in additional amounts becoming impaired.

Estimated future amortization expense of intangible assets with finite lives as of September 30, 2015 is as follows (in thousands):

Year ending December 31,	Amount
2015 (remaining three months)	\$27,251
2016	98,586
2017	74,536
2018	62,561
2019	43,012

Thereafter
Total

60,102
\$366,048

20

9. SEGMENT INFORMATION

The Enterprise and Service Provider and the Mobility Apps business units constitute the Company's two reportable segments. The Company does not engage in intercompany revenue transfers between segments. The Company's chief operating decision maker ("CODM") evaluates the Company's performance based primarily on profitability from its Enterprise and Service Provider and Mobility Apps products. Segment profit for each segment includes certain research and development, sales, marketing and services and general and administrative expenses directly attributable to the segment as well as other corporate costs allocated to the segment and excludes certain expenses that are managed outside of the reportable segments. Costs excluded from segment profit primarily consist of certain restructuring charges, stock-based compensation costs, charges or benefits related to significant litigation that are not anticipated to be ongoing costs, amortization of product related intangible assets, amortization and impairment of other intangible assets, net interest and other expense, net. Accounting policies of the Company's segments are the same as its consolidated accounting policies.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net revenues:				
Enterprise and Service Provider	\$622,513	\$593,741	\$1,833,126	\$1,808,209
Mobility Apps	190,757	165,253	537,705	483,164
Consolidated	\$813,270	\$758,994	\$2,370,831	\$2,291,373
Segment profit ⁽¹⁾ :				
Enterprise and Service Provider	\$190,372	\$131,409	\$497,351	\$394,536
Mobility Apps	22,901	27,402	60,202	92,333
Unallocated expenses ⁽²⁾ :				
Amortization and impairment of intangible assets	(97,038	) (33,915	) (154,931	) (135,515
Patent litigation charge	—	(20,727	) —	(20,727
Other	—	—	982	—
Restructuring	(13,766	) (3,124	) (62,251	) (17,285
Net interest and other expense, net	(10,440	) (10,374	) (37,997	) (16,897
Stock-based compensation	(38,671	) (42,449	) (103,674	) (128,440
Consolidated income before income taxes	\$53,358	\$48,222	\$199,682	\$168,005

The Company revised its methodology for allocating certain corporate costs within General and administrative expenses to more closely align these costs to the employees directly utilizing the related services within each of its reporting segments, thereby impacting Segment profit for the nine months ended September 30, 2015.

(1) Accordingly, the adjusted Segment profit for the Enterprise and Service Provider and Mobility Apps segments is \$132.1 million and \$15.0 million, respectively for the three months ended March 31, 2015 and \$174.9 million and \$22.3 million, respectively for the three months ended June 30, 2015. This change in presentation does not affect the Company's consolidated financial position, results from operations or cash flows.

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

Revenues by Product Grouping

Revenues by product grouping for the Company's Enterprise and Service Provider and Mobility Apps business units were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net revenues:				
Enterprise and Service Provider				
Workspace Services revenues ⁽¹⁾	\$396,167	\$392,875	\$1,193,178	\$1,170,103
Delivery Networking revenues ⁽²⁾	187,447	155,388	521,488	501,231
Professional services ⁽³⁾	36,676	42,322	110,576	126,775
Other	2,223	3,156	7,884	10,100
Total Enterprise and Service Provider revenues	622,513	593,741	1,833,126	1,808,209
Mobility Apps revenues	190,757	165,253	537,705	483,164
Total net revenues	\$813,270	\$758,994	\$2,370,831	\$2,291,373

Workspace Services revenues are primarily comprised of sales from the Company's windows app delivery (1) products, which include XenDesktop and XenApp, and the Company's mobile app delivery products, which include XenMobile and related license updates and maintenance and support.

(2) Delivery Networking revenues primarily include NetScaler, ByteMobile Smart Capacity and CloudBridge products and related license updates and maintenance and support.

(3) Professional services revenues are primarily comprised of revenues from consulting services and product training and certification services.

Revenues by Geographic Location

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net revenues:				
Enterprise and Service Provider				
Americas	\$345,417	\$318,180	\$1,005,967	\$977,166
EMEA	206,377	202,557	616,558	610,254
Asia-Pacific	70,719	73,004	210,601	220,789
Total Enterprise and Service Provider revenues	622,513	593,741	1,833,126	1,808,209
Mobility Apps				
Americas	160,079	137,031	452,672	400,580
EMEA	24,480	22,407	67,843	65,780
Asia-Pacific	6,198	5,815	17,190	16,804
Total Mobility Apps revenues	190,757	165,253	537,705	483,164
Total net revenues	\$813,270	\$758,994	\$2,370,831	\$2,291,373

10. CONVERTIBLE SENIOR NOTES

Convertible Notes Offering

During 2014, the Company completed a private placement of approximately \$1.44 billion principal amount of 0.500% Convertible Notes due 2019. The net proceeds from this offering were approximately \$1.42 billion, after deducting the initial purchasers' discounts and commissions and the estimated offering expenses payable by the Company. The Company used approximately \$82.6 million of the net proceeds to pay the cost of the Bond Hedges described below (after such cost was partially offset by the proceeds to the Company from the Warrant Transactions described below). The Company used the

remainder of the net proceeds from the offering and a portion of its existing cash and investments to purchase an aggregate of approximately \$1.5 billion of its common stock, as authorized under its share repurchase program. The Company used approximately \$101.0 million to purchase shares of common stock from certain purchasers of the Convertible Notes in privately negotiated transactions concurrently with the closing of the offering, and the remaining \$1.4 billion to purchase additional shares of common stock through an Accelerated Share Repurchase ("ASR") which the Company entered into with Citibank, N.A. (the "ASR Counterparty") on April 25, 2014 (the "ASR Agreement"). The Convertible Notes are governed by the terms of an indenture, dated as of April 30, 2014 (the "Indenture"), between the Company and Wilmington Trust, National Association, as trustee (the "Trustee"). The Convertible Notes are the senior unsecured obligations of the Company and bear interest at a rate of 0.500% per annum, payable semi-annually in arrears on April 15 and October 15 of each year. The Convertible Notes will mature on April 15, 2019, unless earlier repurchased or converted. Upon conversion, the Company will pay cash up to the aggregate principal amount of the Convertible Notes to be converted and pay or deliver, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock, at the Company's election, in respect of the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the Convertible Notes being converted. As of September 30, 2015, none of the conditions allowing holders of the Notes to convert had been met. The conversion rate for the Convertible Notes is 11.1111 shares of common stock per \$1,000 principal amount of Convertible Notes, which corresponds to a conversion price of approximately \$90.00 per share of common stock. The conversion rate is subject to adjustment from time to time upon the occurrence of certain events, including, but not limited to, the issuance of certain stock dividends on common stock, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness, or assets, the payment of cash dividends and certain issuer tender or exchange offers.

The Company may not redeem the Convertible Notes prior to the maturity date and no "sinking fund" is provided for the Convertible Notes, which means that the Company is not required to periodically redeem or retire the Convertible Notes. Upon the occurrence of certain fundamental changes involving the Company, holders of the Convertible Notes may require the Company to repurchase for cash all or part of their Convertible Notes in principal amounts of \$1,000 or an integral multiple thereof at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

In accounting for the issuance of the Convertible Notes, the Company separated the Convertible Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the estimated fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the face value of the Convertible Notes as a whole. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense over the term of the Convertible Notes using the effective interest method with an effective interest rate of 3.0 percent per annum. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the transaction costs related to the Convertible Note issuance, the Company allocated the total amount incurred to the liability and equity components based on their relative values. Issuance costs attributable to the \$1.3 billion liability component are being amortized to expense over the term of the Convertible Notes, and issuance costs attributable to the \$162.9 million equity component are included along with the equity component in stockholders' equity. Additionally, a deferred tax liability of \$8.2 million related to a portion of the equity component transaction costs which are deductible for tax purposes is included in Other liabilities in the accompanying condensed consolidated balance sheets.

The Convertible Notes consist of the following (in thousands):

	September 30, 2015
Liability component	
Principal	\$1,437,500
Less: note discount	(120,608)
Net carrying amount	1,316,892

Equity component *

\$162,869

* Recorded in the condensed consolidated balance sheet within additional paid-in capital.

23

The following table includes total interest expense recognized related to the Convertible Notes (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Contractual interest expense	\$1,797	\$1,797	\$5,391	\$2,995
Amortization of debt issuance costs	997	922	2,971	1,533
Amortization of debt discount	8,039	7,802	23,939	12,971
	\$10,833	\$10,521	\$32,301	\$17,499

See Note 6 to the Company's condensed consolidated financial statements for fair value disclosures related to the Company's Convertible Notes.

Convertible Note Hedge and Warrant Transactions

In connection with the pricing of the Convertible Notes, the Company entered into convertible note hedge transactions relating to approximately 16.0 million shares of common stock (the "Bond Hedges"), with JPMorgan Chase Bank, National Association, London Branch; Goldman, Sachs & Co.; Bank of America, N.A.; and Royal Bank of Canada (the "Option Counterparties") and also entered into separate warrant transactions (the "Initial Warrant Transactions") with each of the Option Counterparties relating to approximately 16.0 million shares of common stock.

The Bond Hedges are generally expected to reduce the potential dilution upon conversion of the Convertible Notes and/or offset any payments in cash, shares of common stock or a combination of cash and shares of common stock, at the Company's election, that the Company is required to make in excess of the principal amount of the Convertible Notes upon conversion of any Convertible Notes, as the case may be, in the event that the market price per share of common stock, as measured under the terms of the Bond Hedges, is greater than the strike price of the Bond Hedges, which initially corresponds to the conversion price of the Convertible Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Convertible Notes. The Warrant Transactions will separately have a dilutive effect to the extent that the market value per share of common stock, as measured under the terms of the Warrant Transactions, exceeds the applicable strike price of the warrants issued pursuant to the Warrant Transactions (the "Warrants"). The initial strike price of the Warrants is \$120.00 per share. The Warrants will expire in ratable portions on a series of expiration dates commencing after the maturity of the Convertible Notes. The Bond Hedges and Warrants are not marked to market. The value of the Bond Hedges and Warrants were initially recorded in stockholders' equity and continue to be classified within stockholders' equity.

Aside from the initial payment of a premium to the Option Counterparties under the Bond Hedges, which amount is partially offset by the receipt of a premium under the Warrant Transactions, the Company is not required to make any cash payments to the Option Counterparties under the Bond Hedges and will not receive any proceeds if the Warrants are exercised.

11. CREDIT FACILITY

Effective January 7, 2015, the Company entered into a Credit Facility with a group of financial institutions (the "Lenders"). The Credit Facility provides for a five year revolving line of credit in the aggregate amount of \$250.0 million, subject to continued covenant compliance. The Company may elect to increase the revolving credit facility by up to \$250.0 million if existing or new lenders provide additional revolving commitments in accordance with the terms of the Credit Agreement. 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 \$10.0 million may be available for swing line loans, as part of, not in addition to, the aggregate revolving commitments. The Credit Facility bears interest at the LIBOR plus 1.10% and adjusts in the range of 1.00% to 1.30% above LIBOR based on the ratio of the Company's total debt to its adjusted earnings before interest, taxes, depreciation, amortization and certain other items ("EBITDA") as defined in the agreement. In addition, the Company is required to pay a quarterly facility fee ranging from 0.125% to 0.20% of the aggregate revolving commitments under the Credit Facility and based on the ratio of the Company's total debt to the Company's consolidated EBITDA. The weighted average interest rate for the period that amounts were outstanding under the Credit Facility was 1.82%. As of September 30, 2015, there were no amounts outstanding under the Credit Facility.

The Credit Agreement contains certain financial covenants that require the Company to maintain a consolidated leverage ratio of not more than 3.5:1.0 and a consolidated interest coverage ratio of not less than 3.0:1.0. In addition, the Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the ability of the Company to grant liens, merge, dissolve or consolidate, dispose of all or substantially all of its assets, pay dividends during the

24

existence of a default under the Credit Agreement, change its business and incur subsidiary indebtedness, in each case subject to customary exceptions for a credit facility of this size and type. The Company was in compliance with these covenants as of September 30, 2015.

12. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives Designated as Hedging Instruments

As of September 30, 2015, the Company's derivative assets and liabilities primarily resulted from cash flow hedges related to its forecasted operating expenses transacted in local currencies. A substantial portion of the Company's overseas expenses are and will continue to be transacted in local currencies. To protect against fluctuations in operating expenses and the volatility of future cash flows caused by changes in currency exchange rates, the Company has established a program that uses foreign exchange forward contracts to hedge its exposure to these potential changes. The terms of these instruments, and the hedged transactions to which they relate, generally do not exceed 12 months.

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 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 equity.

The total cumulative unrealized loss on cash flow derivative instruments was \$2.6 million at September 30, 2015 and the total cumulative unrealized loss on cash flow derivative instruments was \$8.3 million at December 31, 2014, and is included in Accumulated other comprehensive loss in the accompanying condensed consolidated balance sheets. See Note 13 for more information related to comprehensive income. The net unrealized loss as of September 30, 2015 is expected to be recognized in income over the next 12 months at the same time the hedged items are recognized in income.

Derivatives not Designated as Hedging Instruments

A substantial portion of the Company's overseas assets and liabilities are and will continue to be denominated in local currencies. To protect against fluctuations in earnings caused by changes in currency exchange rates when remeasuring the Company's balance sheet, it utilizes foreign exchange forward contracts to hedge its exposure to this potential volatility.

These contracts are not designated for hedge accounting treatment under the authoritative guidance. Accordingly, changes in the fair value of these contracts are recorded in Other expense, net.

Fair Values of Derivative Instruments

Derivatives Designated as Hedging Instruments	Asset Derivatives (In thousands)				Liability Derivatives			
	September 30, 2015		December 31, 2014		September 30, 2015		December 31, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency forward contracts	Prepaid expenses and other current assets	\$462	Prepaid expenses and other current assets	\$435	Accrued expenses and other current liabilities	\$3,297	Accrued expenses and other current liabilities	\$9,364

Derivatives Not Designated as Hedging Instruments	Asset Derivatives (In thousands)				Liability Derivatives			
	September 30, 2015		December 31, 2014		September 30, 2015		December 31, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency forward contracts	Prepaid expenses and other current assets	\$729	Prepaid expenses and other current assets	\$771	Accrued expenses and other current liabilities	\$486	Accrued expenses and other current liabilities	\$328

The Effect of Derivative Instruments on Financial Performance

For the Three Months Ended September 30,
(In thousands)

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in Other Comprehensive Income (Effective Portion)		Location of (Loss)/Gain Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)	Amount of (Loss)/Gain Reclassified from Accumulated Other Comprehensive Loss (Effective Portion)	
	2015	2014		2015	2014
	Foreign currency forward contracts	\$ (554)		\$ (8,309)	Operating expenses	$ (1,794 )	$ 1,500

For the Nine Months Ended September 30,
(In thousands)

Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in Other Comprehensive (Loss)	Location of (Loss)/Gain Reclassified	Amount of (Loss)/Gain Reclassified from Accumulated Other Comprehensive Loss
--	--	--------------------------------------	--

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

	Income (Effective Portion)		from Accumulated Other Comprehensive Loss into Income (Effective Portion)	(Effective Portion)	
	2015	2014		2015	2014
Foreign currency forward contracts	\$5,770	\$(8,645)	Operating expenses	\$ (11,462)	\$ 4,448

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

Derivatives Not Designated as Hedging Instruments	For the Three Months Ended September 30, (In thousands)		
	Location of Gain Recognized in Income on Derivative	Amount of Gain Recognized in Income on Derivative	
		2015	2014
Foreign currency forward contracts	Other expense, net	\$1,238	\$2,626

Derivatives Not Designated as Hedging Instruments	For the Nine Months Ended September 30, (In thousands)		
	Location of Gain Recognized in Income on Derivative	Amount of Gain Recognized in Income on Derivative	
		2015	2014
Foreign currency forward contracts	Other expense, net	\$1,727	\$1,064

Outstanding Foreign Currency Forward Contracts

As of September 30, 2015, the Company had the following net notional foreign currency forward contracts outstanding (in thousands):

Foreign Currency	Currency Denomination
Australian Dollar	AUD 10,332
Brazilian Real	BRL 5,100
Pounds Sterling	GBP 8,550
Canadian Dollar	CAD 2,600
Chinese Yuan Renminbi	CNY 12,217
Danish Krone	DKK 21,300
Euro	EUR 6,300
Hong Kong Dollar	HKD 51,268
Indian Rupee	INR 615,751
Japanese Yen	JPY 731,342
Singapore Dollar	SGD 11,615
Swiss Franc	CHF 22,700

13. COMPREHENSIVE INCOME

The changes in Accumulated other comprehensive loss by component, net of tax, are as follows:

	Foreign currency	Unrealized gain (loss) on available-for-sale securities	Unrealized (loss) gain on derivative instruments	Other comprehensive loss on pension liability	Total
	(In thousands)				
Balance at December 31, 2014	\$(16,346)	\$ (990)	\$(8,345)	\$ (11,109)	\$(36,790)
Other comprehensive income before reclassifications	—	1,392	(5,692)	—	(4,300)
Amounts reclassified from accumulated other comprehensive loss	—	164	11,462	—	11,626
Net current period other comprehensive income	—	1,556	5,770	—	7,326
Balance at September 30, 2015	\$(16,346)	\$ 566	\$(2,575)	\$ (11,109)	\$(29,464)

Income tax expense or benefit allocated to each component of other comprehensive (loss) income is not material.

Reclassifications out of Accumulated other comprehensive loss are as follows:

	For the Three Months Ended September 30, 2015 (In thousands)	
Details about accumulated other comprehensive loss components	Amount reclassified from accumulated other comprehensive loss, net of tax	Affected line item in the Condensed Consolidated Statements of Income
Unrealized net losses on available-for-sale securities	\$232	Other expense, net
Unrealized net losses on cash flow hedges	1,794	Operating expenses *
	\$2,026	

	For the Nine Months Ended September 30, 2015 (In thousands)	
Details about accumulated other comprehensive loss components	Amount reclassified from accumulated other comprehensive loss, net of tax	Affected line item in the Condensed Consolidated Statements of Income
Unrealized net losses on available-for-sale securities	\$164	Other expense, net
Unrealized net losses on cash flow hedges	11,462	Operating expenses *
	\$11,626	

* Operating expenses amounts allocated to Research and development, Sales, marketing and services, and General and administrative are not individually significant.

14. INCOME TAXES

The Company's net unrecognized tax benefits totaled approximately \$48.3 million and \$66.9 million as of September 30, 2015 and December 31, 2014, respectively. All amounts included in the balance at September 30, 2015 for tax positions would affect the annual effective tax rate if recognized. The Company has \$0.5 million accrued for the payment of interest and penalties as of September 30, 2015.

The Company and one or more of its subsidiaries are subject to federal income taxes in the United States, as well as income taxes of multiple state and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years prior to 2013. With few exceptions, the Company is no longer subject to state and local tax or non-U.S. income tax examinations by tax authorities for years prior to 2011.

During the quarter ended June 30, 2015, the Internal Revenue Service ("IRS") concluded its field examination of the Company's 2011 and 2012 tax years and issued proposed adjustments primarily related to transfer pricing and the research and development tax credit. In June 2015, the Company finalized its tax deficiency calculations and formally closed the audit with the IRS for the 2011 and 2012 tax years. As a result, the Company recognized a net tax benefit of \$20.3 million during the second quarter of 2015 related to the settlement.

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.

At September 30, 2015, the Company had approximately \$152.0 million in net deferred tax assets. The authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the

evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company reviews deferred tax assets periodically for recoverability and makes estimates and judgments regarding the expected geographic sources of taxable income and gains from investments, as well as tax planning strategies in assessing the need for a valuation allowance. During the quarter ended September 30, 2015, the Company did not record a change in the Company's valuation allowance.

28

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. The Company maintains certain strategic management and operational activities in overseas subsidiaries and its foreign earnings are taxed at rates that are generally lower than in the United States. The Company does not expect to remit earnings from its foreign subsidiaries. The Company's effective tax rate was approximately (4.8)% and 1.4% for the three months ended September 30, 2015 and 2014, respectively and 5.8% and 6.9% for the nine months ended September 30, 2015 and 2014, respectively. The decrease in the effective tax rate when comparing the three months ended September 30, 2015 to the three months ended September 30, 2014 was primarily due to a change in the mix of income between the Company's U.S. and foreign operations driven by impairment charges of certain domestic intangible assets from the acquisition of ByteMobile recorded in the third quarter of 2015. The decrease in the effective tax rate when comparing the nine months ended September 30, 2015 to the nine months ended September 30, 2014 was due to the impact of settling the IRS examination for the tax years 2011 and 2012 that closed during the three months ended June 30, 2015, and the impact of the intangible asset impairment recorded in the three months ended September 30, 2015.

The Company's effective tax rate generally differs from the U.S. federal statutory rate of 35% due primarily to lower tax rates on earnings generated by the Company's foreign operations that are taxed primarily in Switzerland. The Company has not provided for U.S. taxes for those earnings because it plans to reinvest all of those earnings indefinitely outside the United States. From time to time, there may be other items that impact our effective tax rate, such as the items specific to the current period discussed above.

15. TREASURY STOCK

Stock Repurchase Program

The Company's Board of Directors authorized an ongoing stock repurchase program with a total repurchase authority granted to the Company of \$5.9 billion, of which \$500.0 million was approved in September 2015. 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, 2015, approximately \$336.8 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 net proceeds from the Convertible Notes offering, as well as 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 through open market purchases, pursuant to a Rule 10b5-1 plan or in privately negotiated transactions.

During the three months ended September 30, 2015, the Company expended approximately \$279.5 million on open market purchases under the stock repurchase program, repurchasing 3,895,283 shares of outstanding common stock at an average price of \$71.75. During the nine months ended September 30, 2015, the Company expended approximately \$451.6 million on open market purchases under the stock repurchase program, repurchasing 6,588,783 shares of outstanding common stock at an average price of \$68.54. Of the amount expended, \$53.6 million had not yet settled as of September 30, 2015 and therefore was excluded from the amount reflected in Stock repurchases, net in the Condensed Consolidated Statements of Cash Flows as it is considered a non-cash item. In October 2015, the Company repurchased an additional 3.6 million shares under the stock repurchase program.

During the second quarter of 2014, the Company used a portion of the net proceeds from the Convertible Notes offering and existing cash and investments to repurchase an aggregate of approximately \$1.5 billion of its common stock as authorized under the stock repurchase program. Of this \$1.5 billion, the Company used approximately \$101.0 million to purchase 1.7 million shares from certain purchasers of the Convertible Notes in privately negotiated transactions concurrently with the closing of the offering, and the remaining \$1.4 billion to purchase additional shares of common stock under an Accelerated Share Repurchase ("ASR") which the Company entered into with Citibank, N.A. ("Citibank") on April 25, 2014 (the "ASR Agreement"). Under the ASR agreement, the Company paid \$1.4 billion to Citibank upon consummation of the ASR and received, in the aggregate, approximately 21.8 million shares of its common stock from Citibank, including approximately 2.6 million shares delivered in October 2014 in final settlement in connection with Citibank's election to accelerate the ASR. The total number of shares of common stock that the Company repurchased under the ASR Agreement was based on the average of the daily volume-weighted

average prices of the common stock during the term of the ASR Agreement, less a discount.

During the three and nine months ended September 30, 2014, the Company expended approximately \$99.9 million on open market purchases under the stock repurchase program, repurchasing 1,434,400 shares of outstanding common stock at an average price of \$69.71.

Shares for Tax Withholding

During the three months ended September 30, 2015, the Company withheld 55,963 shares from stock units that vested, totaling \$4.1 million, to satisfy minimum tax withholding obligations that arose on the vesting of stock units.

During the nine

months ended September 30, 2015, the Company withheld 501,785 shares from stock units that vested, totaling \$32.4 million, to satisfy minimum tax withholding obligations that arose on the vesting of stock units. During the three months ended September 30, 2014, the Company withheld 75,797 shares from stock units that vested, totaling \$4.9 million, to satisfy minimum tax withholding obligations that arose on the vesting of stock units. During the nine months ended September 30, 2014, the Company withheld 470,567 shares from stock units that vested, totaling \$27.8 million, to satisfy minimum tax withholding obligations that arose on the vesting of stock units. These shares are reflected as treasury stock in the Company's condensed consolidated balance sheets and the related cash outlays do not reduce the Company's total stock repurchase authority.

16. COMMITMENTS AND CONTINGENCIES

Leases

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

Legal Matters

The Company accrues a liability for legal contingencies when it believes that it is both probable that a liability has been incurred and that it can reasonably estimate the amount of the loss. The Company reviews these accruals and adjusts them to reflect ongoing negotiations, settlements, rulings, advice of legal counsel and other relevant information. To the extent new information is obtained and the Company's views on the probable outcomes of claims, suits, assessments, investigations or legal proceedings change, changes in the Company's accrued liabilities would be recorded in the period in which such determination is made. For the Other Matters referenced below, the amount of liability is not probable or the amount cannot be reasonably estimated; and, therefore, accruals have not been made. In addition, in accordance with the relevant authoritative guidance, for matters in which the likelihood of material loss is at least reasonably possible, the Company provides disclosure of the possible loss or range of loss. If a reasonable estimate cannot be made, however, the Company will provide disclosure to that effect.

In April 2014, John Calma, ostensibly on behalf of the Company, filed a shareholder derivative complaint against certain of the directors of the Company (and the Company as a nominal defendant) in the Court of Chancery of the State of Delaware. The complaint alleges breach of fiduciary duty, waste of corporate assets and unjust enrichment related to stock awards that the directors received under the Company's director compensation program. The complaint seeks among other things the recovery of monetary damages and other relief for damages allegedly caused to the Company. A reasonable estimate cannot be made at this time. The Company believes that its directors and the Company have meritorious defenses to these allegations and that it is not reasonably possible that the ultimate outcome of this suit will materially and adversely affect the Company's business, financial condition, results of operations or cash flows.

Due to the nature of the Company's business, the Company is subject to patent infringement claims, including current suits against it or one or more of its wholly-owned subsidiaries alleging infringement by various Company products and services (the "Other Matters"). The Company believes that it has meritorious defenses to the allegations made in its pending cases and intends to vigorously defend these lawsuits; however, it is currently unable to determine the ultimate outcome of these or similar matters. In addition, the Company is a defendant in various litigation matters generally arising out of the normal course of business. Although it is difficult to predict the ultimate outcomes of these cases, the Company believes that it is not reasonably possible that the ultimate outcomes will materially and adversely affect its business, financial position, results of operations or cash flows.

Guarantees

The authoritative guidance requires certain guarantees to be recorded at fair value and requires a guarantor to make disclosures, even when the likelihood of making any payments under the guarantee is remote. For those guarantees and indemnifications that do not fall within the initial recognition and measurement requirements of the authoritative guidance, the Company must continue to monitor the conditions that are subject to the guarantees and indemnifications, as required under existing generally accepted accounting principles, to identify if a loss has been

incurred. If the Company determines that it is probable that a loss has been incurred, any such estimable loss would be recognized. The initial recognition and measurement requirements do not apply to the provisions contained in the majority of the Company's software license agreements that indemnify licensees of the Company's software from damages and costs resulting from claims alleging that the Company's software infringes the intellectual property rights of a third party. The Company has not made payments pursuant to these provisions. The Company has not identified any losses that are probable under these provisions and, accordingly, the Company has not recorded a liability related to these indemnification provisions.

17. RESTRUCTURING

2015 Restructuring Program

On January 28, 2015, the Company announced the implementation of a restructuring program designed to increase strategic focus and operational efficiency and began to execute against the program in February 2015. As a result, the Company eliminated approximately 700 full-time positions in the first half of 2015. During the three and nine months ended September 30, 2015, the Company incurred \$14.0 million and \$60.5 million, respectively, primarily related to employee severance arrangements and the consolidation of leased facilities. It is anticipated that the aggregate total pre-tax restructuring charges will be in the range of \$66.0 million to \$70.0 million. Included in these pre-tax charges are approximately \$49.0 million to \$51.0 million related to employee severance arrangements and approximately \$17.0 million to \$19.0 million related to the consolidation of leased facilities during fiscal year 2015. The majority of the activities related to the 2015 Restructuring Program are anticipated to be completed by the end of 2015.

2014 Restructuring Program

During the first quarter of 2014, the Company announced the implementation of the 2014 Restructuring Program to better align resources to strategic initiatives. As a result, the Company reduced its headcount by approximately 325 full-time positions since inception. The pre-tax charges incurred were primarily related to severance and other costs directly related to the reduction of the Company's workforce. The activities under the 2014 Restructuring Program were substantially completed as of the end of the first quarter of 2015. As of September 30, 2015, total charges related to the 2014 Restructuring Program incurred since inception were \$22.2 million, primarily related to employee severance and related costs.

Restructuring Charges by Segment

Restructuring charges by segment consists of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
2014 Restructuring Program				
Enterprise and Service Provider	\$(263	) \$3,122	\$1,747	\$11,093
Mobility Apps	—	2	50	6,192
2015 Restructuring Program				
Enterprise and Service Provider	13,714	—	59,580	—
Mobility Apps	315	—	874	—
Total restructuring charges	\$13,766	\$3,124	\$62,251	\$17,285

Restructuring accruals

The activity in the Company's restructuring accruals for the nine months ended September 30, 2015 is summarized as follows (in thousands):

	2014	2015		
	Restructuring Program	Restructuring Program	Total	
Balance at January 1, 2015	\$ 2,780	\$ —	\$2,780	
Employee severance and related costs	2,060	44,696	46,756	
Consolidation of leased facilities	—	14,703	14,703	
Payments	(3,433	) (40,405	) (43,838)
Reversal of previous charges	(263	) —	(263)
Balance at September 30, 2015	\$ 1,144	\$ 18,994	\$20,138	

As of September 30, 2015, the \$20.1 million in outstanding restructuring accruals primarily relates to the Enterprise and Service Provider segment.

30

18. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2015, the Financial Accounting Standards Board issued an accounting standard update on business combinations. The new guidance requires that an acquirer in a business combination recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the cumulative effect of the change in provisional amount as if the accounting had been completed as of the acquisition date. The adjustments related to previous reporting periods since the acquisition date must be disclosed by income statement line item either on the face of the income statement or in the notes. The guidance becomes effective for fiscal years and interim reporting periods beginning on or after December 15, 2015, with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial position, results of operations and cash flows.

In April 2015, the Financial Accounting Standards Board issued an accounting standard update on the presentation of debt issuance costs. The new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance becomes effective for fiscal years and interim reporting periods beginning on or after December 15, 2015, with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial position, results of operations and cash flows.

In May 2014, the Financial Accounting Standards Board issued an accounting standard update on revenue recognition. The new guidance creates a single, principle-based model for revenue recognition and expands and improves disclosures about revenue. In July 2015, the Financial Accounting Standards Board issued an accounting standard update that defers the effective date of the new revenue recognition standard by one year. The new guidance is effective for annual reporting periods beginning on or after December 15, 2017, and must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. The Company is currently evaluating the potential impact of this standard on its financial position and results of operations.

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, research and development, offerings of products and services, market positioning and opportunities, headcount, customer demand, distribution and sales channels, financial information and results of operations for future periods, Other expense, net, product and price competition, strategy and growth initiatives, seasonal factors, restructuring activities, international operations and expansion, investment transactions and valuations of investments and derivative instruments, reinvestment or repatriation of foreign earnings, fluctuations in foreign exchange rates, tax matters, tax rates, the expected benefits of acquisitions, changes in domestic and foreign economic conditions and credit markets, liquidity and debt obligations, share repurchase activity, litigation and intellectual property matters, constitute forward-looking statements and are made under the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are neither promises nor guarantees. Our actual results of operations and financial condition have varied and could in the future vary materially from those stated in any forward-looking statements. The factors described in Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2014, as may be updated in Part II, Item 1A in this Quarterly Report on Form 10-Q, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Quarterly Report on Form 10-Q, in the documents incorporated by reference into this Quarterly Report on Form 10-Q or presented elsewhere by our management from time to time. Such factors, among others, could have a material adverse effect upon our business, results of operations and financial condition. We caution readers not to place undue reliance on any forward-looking statements, which only speak as of the date made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

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, 2015. 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 are leading the transition to software-defining the workplace, uniting virtualization, mobility management, and networking and SaaS solutions to enable new ways for businesses and people to work better. Citrix solutions power business mobility through secure, mobile workspaces that provide people with instant access to apps, desktops, data and communications on any device, over any network or cloud.

We market and license our products directly to customers, over the Web, and through systems integrators, or SIs, in addition to indirectly through value-added resellers, or VARs, value-added distributors, or VADs, original equipment manufacturers, or OEMs, and service providers.

Executive Summary

We have positioned, scaled and transformed through significant growth phases - from remote access, to web app delivery, to virtualization, to mobile workspaces - and, now, we are focused on enabling a software-defined workplace where people can securely and effortlessly collaborate across any device over any network and cloud, resulting in increased business productivity for our customers. Our technologies mobilize desktops, apps, data, and people to help our customers drive value. We continue driving innovation in the datacenter with our unique technologies across both physical and software defined networking platforms while powering some of the world's largest clouds and giving

enterprises the capabilities to combine best-in-class application networking services on a single, consolidated footprint. For simpler app delivery solutions, we are investing in our cloud businesses. Our work with Citrix Service Providers, or CSPs, and our cloud-based offerings in XenApp and XenMobile are how we're meeting customer demand for subscription-based services for the delivery of apps - from Windows to web to mobile.

On January 28, 2015, we announced the implementation of a restructuring program designed to increase strategic focus and operational efficiency and began to execute against the program in February 2015. As a result, we eliminated approximately 700 full-time positions in the first half of 2015. During the three and nine months ended September 30, 2015, we

incurred \$14.0 million and \$60.5 million, respectively, primarily related to employee severance arrangements and the consolidation of leased facilities. It is anticipated that the aggregate total pre-tax restructuring charges will be in the range of \$66.0 million to \$70.0 million. Included in these pre-tax charges are approximately \$49.0 million to \$51.0 million related to employee severance arrangements and approximately \$17.0 million to \$19.0 million related to the consolidation of leased facilities during fiscal year 2015. The majority of the activities related to the 2015 Restructuring Program are anticipated to be completed by the end of 2015.

In the first quarter of 2015, we saw a greater than anticipated impact on our execution as a result of the implementation of our 2015 Restructuring Program, organizational and leadership evolution and changes to our field and channel strategies. We made progress during the second and third quarters of 2015 in absorbing and adjusting to these changes which is reflected in our improved results.

On July 28, 2015, we announced our plans to explore strategic alternatives related to our ByteMobile business and our GoTo family of products. The strategic alternatives review for these businesses could result in, among other things, possible sale or spin-off transactions. Building upon our previous initiatives to increase our strategic focus and operational efficiency, on July 28, 2015, we also announced that our Board formed an Operations Committee to work with our management team on a comprehensive operational review, including, among other things, a review of our operating margins, profitability and capital structure. We see opportunities to further optimize our business model by taking actions necessary to drive operating margin expansion, streamline the organization, and simplify product focus to our core products. Consistent with our operational review, we are directing more of our resources towards our core strategy, the secure delivery of apps and data, allowing us to continue to operate with better execution and greater efficiency.

On October 21, 2015, we announced that Mark B. Templeton retired as our Chief Executive Officer and President and as a member of the Board of Directors, and that Robert M. Calderoni, our Executive Chairman, was appointed interim Chief Executive Officer and President. Robert M. Calderoni will continue serving as Executive Chairman on our Board of Directors, and our Board of Directors is continuing its search for a permanent Chief Executive Officer and President.

During the three months ended September 30, 2015, we expended approximately \$279.5 million on open market purchases under the stock repurchase program, repurchasing 3.9 million shares of outstanding common stock at an average price of \$71.75. In October 2015, we continued our open market purchases under the stock repurchase program at an accelerated pace, buying back an additional 3.6 million shares to fully utilize our increased authorization of \$500.0 million that was approved in September 2015.

Summary of Results

For the three months ended September 30, 2015 compared to the three months ended September 30, 2014, a summary of our results included:

- Product and licenses revenue increased 6.8% to \$206.3 million;
- Software as a service revenue increased 15.4% to \$190.8 million;
- License updates and maintenance revenue increased 6.0% to \$379.6 million;
- Professional services revenue decreased 13.3% to \$36.7 million;
- Gross margin as a percentage of revenue decreased 0.1% to 82.0%;
- Operating income increased 8.9% to \$63.8 million; and
- Diluted net income per share increased 20.7% to \$0.35.

The increase in our Product and licenses revenue was driven by higher sales of our Delivery Networking products, primarily NetScaler, partially offset by a decrease in overall sales of our Workspace Services products. Our Software as a service revenue increased primarily due to increased sales of our Communications Cloud products, led by GoToMeeting, and our Workflow Cloud products, led by ShareFile. The increase in License updates and maintenance revenue was driven by increased sales of software maintenance contracts across our Workspace Services products, partially offset by a decrease in our Subscription Advantage product resulting from new software maintenance offerings implemented in 2015. The decrease in Professional services revenue was primarily due to decreased implementation services related to our Workspace Services products. We currently target total revenue to increase

when comparing the fourth quarter of 2015 to the fourth quarter of 2014 and when comparing the 2015 fiscal year to the 2014 fiscal year. The decrease in gross margin was not significant. The increase in operating income and diluted net income per share was primarily due to the increase in total revenue in the third quarter of 2015 and a charge related to patent litigation in the third quarter of 2014. Also contributing to the increase in operating income and diluted net income per share was an improvement in operating expenses, primarily as a result of cost savings from our restructuring activities. This increase was partially offset by an increase in amortization of product related and other intangible assets related to impairment charges recorded in the third quarter of 2015.

2015 Acquisitions

Sanbolic

On January 8, 2015, we acquired all of the issued and outstanding securities of Sanbolic, Inc., or Sanbolic. Sanbolic is an innovator and leader in workload-oriented storage virtualization technologies. The Sanbolic technology, combined with XenDesktop, XenApp, and XenMobile products enables us to develop a range of differentiated solutions that will reduce the complexity of Microsoft Windows application delivery and desktop virtualization deployments. Sanbolic became part of our Enterprise and Service Provider segment. The total cash consideration for this transaction was approximately \$89.4 million, net of \$0.2 million cash acquired. Transaction costs associated with the acquisition were \$0.5 million. No transaction costs were recorded during the three months ended September 30, 2015 and we expensed \$0.2 million during the nine months ended September 30, 2015, which is included in General and administrative expense in the accompanying condensed consolidated statements of income. In addition, in connection with the acquisition, we assumed non-vested stock units which were converted into the right to receive, in the aggregate, up to 37,057 shares of our common stock, for which the vesting period commenced on the closing of the transaction.

Grasshopper

On May 18, 2015, we acquired all of the membership interests of Grasshopper Group, LLC, or Grasshopper, a leading provider of cloud-based phone solutions for small businesses. With the acquisition, we will expand our breadth of communication and collaboration solutions for small businesses, including GoToMeeting, GoToTraining, GoToWebinar, OpenVoice and ShareFile. Grasshopper became part of our Mobility Apps segment. Total cash consideration for this transaction was approximately \$161.5 million, net of \$3.6 million cash acquired. Transaction costs associated with the acquisition were \$0.3 million. No transaction costs were recorded during the three months ended September 30, 2015 and we expensed \$0.3 million during the nine months ended September 30, 2015, which is included in General and administrative expense in the accompanying condensed consolidated statements of income. In addition, in connection with the acquisition, we assumed non-vested stock units which were converted into the right to receive, in the aggregate, up to 105,765 shares of our common stock, for which the vesting period began on the closing of the transaction.

2014 Acquisitions

Framehawk

In January 2014, we acquired all of the issued and outstanding securities of Framehawk, Inc., or Framehawk. The Framehawk solution, which optimizes the delivery of virtual desktops and applications to mobile devices, was combined with HDX technology in the Citrix XenApp and XenDesktop products to deliver an improved user experience under adverse network conditions. Framehawk became part of our Enterprise and Service Provider segment. The total cash consideration for this transaction was approximately \$24.2 million, net of \$0.2 million of cash acquired. Transaction costs associated with the acquisition were approximately \$0.1 million, all of which we expensed during the nine months ended September 30, 2014 and are included in the accompanying condensed consolidated statements of income.

RightSignature

In October 2014, we acquired all of the membership interests of RightSignature, LLC, or RightSignature. The RightSignature technology expands the Workflow Cloud beyond storage and file transfer to supporting e-signature and approval workflows. RightSignature became part of our Mobility Apps segment. The total consideration for this transaction was approximately \$37.8 million, net of \$1.1 million of cash acquired. Transaction costs associated with the acquisition were approximately \$0.2 million, of which we expensed \$0.1 million during the nine months ended September 30, 2014 and are included in General and administrative expense in the accompanying condensed consolidated statements of income. In addition, in connection with the acquisition, we assumed non-vested stock units, which were converted into the right to receive, in the aggregate, up to 67,500 of our common stock, for which the vesting period began on the closing of the transaction.

2014 Other Acquisitions

During the second quarter of 2014, we acquired all of the issued and outstanding securities of a privately-held company. The total cash consideration for this transaction was approximately \$17.2 million, net of \$0.8 million of cash acquired. This business became part of our Enterprise and Service Provider segment. Transaction costs

associated with the acquisition were approximately \$0.1 million, all of which we expensed during the nine months ended September 30, 2014 and are included in General and administrative expense in the accompanying condensed consolidated statements of income.

In the fourth quarter of 2014, we acquired all of the issued and outstanding securities of two privately-held companies for total cash consideration of approximately \$19.9 million, net of \$0.2 million of cash acquired. The businesses became part of our Enterprise and Service Provider segment. In addition, in connection with one of the acquisitions, we assumed non-vested stock units, which were converted into the right to receive, in the aggregate, up to 23,430 shares of our common stock, for

which the vesting period began on the closing of the transaction. Transaction costs associated with the acquisitions were not significant.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. We base these estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances, and these estimates form the basis for our judgments concerning the carrying values of assets and liabilities that are not readily apparent from other sources. We periodically evaluate these estimates and judgments based on available information and experience. Actual results could differ from our estimates under different assumptions and conditions. If actual results significantly differ from our estimates, our financial condition and results of operations could be materially impacted. For more information regarding our critical accounting policies and estimates please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” contained in our Annual Report on Form 10-K for the year ended December 31, 2014, or the Annual Report, and Note 2 to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. There have been no material changes to the critical accounting policies disclosed in the Annual Report.

Results of Operations

The following table sets forth our unaudited 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		Nine Months Ended		Three Months Ended	Nine Months Ended		
	September 30,		September 30,		September 30,	September 30,		
	2015	2014	2015	2014	2015	2015	vs. September 30,	vs. September 30,
					2014		2014	
Revenues:								
Product and licenses	\$206,252	\$193,153	\$594,507	\$632,369	6.8	%	(6.0)%
Software as a service	190,757	165,253	537,705	483,164	15.4		11.3	
License updates and maintenance	379,585	358,266	1,128,043	1,049,065	6.0		7.5	
Professional services	36,676	42,322	110,576	126,775	(13.3	)	(12.8)
Total net revenues	813,270	758,994	2,370,831	2,291,373	7.2		3.5	
Cost of net revenues:								
Cost of product and license revenues	34,859	24,045	83,833	88,144	45.0		(4.9)
Cost of services and maintenance revenues	91,295	87,981	270,218	254,763	3.8		6.1	
Amortization of product related intangible assets	20,100	23,959	57,560	102,660	(16.1	)	(43.9)
Total cost of net revenues	146,254	135,985	411,611	445,567	7.6		(7.6)
Gross margin	667,016	623,009	1,959,220	1,845,806	7.1		6.1	
Operating expenses:								
Research and development	139,128	137,877	423,972	411,870	0.9		2.9	
Sales, marketing and services	293,587	318,252	896,250	956,287	(7.8	)	(6.3)
General and administrative	79,799	95,203	241,697	242,606	(16.2	)	(0.4)
Amortization and impairment of other intangible assets	76,938	9,956	97,371	32,855	672.8		196.4	
Restructuring	13,766	3,124	62,251	17,285	340.7		260.1	
Total operating expenses	603,218	564,412	1,721,541	1,660,903	6.9		3.7	
Income from operations	63,798	58,597	237,679	184,903	8.9		28.5	
Interest income	3,004	2,411	8,679	6,705	24.6		29.4	
Interest expense	11,075	10,551	33,196	17,601	5.0		88.6	
Other expense, net	(2,369	) (2,235	) (13,480	) (6,002	) 6.0		124.6	
Income before income taxes	53,358	48,222	199,682	168,005	10.7		18.9	
Income tax (benefit) expense	(2,567	) 690	11,595	11,510	(472.0	)	0.7	
Net income	\$55,925	\$47,532	\$188,087	\$156,495	17.7		20.2	

Revenues

Net revenues of our Enterprise and Service Provider business unit include Product and licenses, License updates and maintenance, and Professional services. Product and licenses primarily represent fees related to the licensing of the following major products:

• Workspace Services is primarily comprised of our Windows App Delivery products, which include XenDesktop and XenApp, our Mobile App Delivery products which include XenMobile products and Workspace Suite; and
 • Delivery Networking primarily includes NetScaler, ByteMobile Smart Capacity, and CloudBridge; and
 • Our CSP program provides subscription-based services in which the CSP partners host software services to their end users. The fees from the CSP program are recognized based on usage and as the CSP services are provided to their end users.

In addition, we offer incentive programs to our VADs and VARs to stimulate demand for our products. Product and license revenues associated with these programs are partially offset by these incentives to our VADs and VARs.

License updates and maintenance consists of:

• Our Subscription Advantage program, 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, for which fees are recognized ratably over the term of the contract, which is typically 12 to 24 months; and

• Our maintenance fees, which include technical support and hardware and software maintenance, and which are recognized ratably over the contract term; and

Professional services are comprised of:

• Fees from consulting services related to implementation of our products, which are recognized as the services are provided; and

• Fees from product training and certification, which are recognized as the services are provided.

Our SaaS revenues, which are recognized ratably over the contractual term, primarily consist of fees related to our Mobility Apps products including:

• Communications Cloud products, which primarily include GoToMeeting, GoToWebinar and GoToTraining; and

• Workflow Cloud products, which primarily include GoToMyPC, GoToAssist and ShareFile.

	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,		September 30,		September 30,		September 30,	
	2015	2014	2015	2014	vs. September 30,	vs. September 30, 2014		
					2014			
	(In thousands)							
Product and licenses	\$206,252	\$193,153	\$594,507	\$632,369	\$ 13,099	\$(37,862)		
Software as a service	190,757	165,253	537,705	483,164	25,504	54,541		
License updates and maintenance	379,585	358,266	1,128,043	1,049,065	21,319	78,978		
Professional services	36,676	42,322	110,576	126,775	(5,646)	(16,199)		
Total net revenues	\$813,270	\$758,994	\$2,370,831	\$2,291,373	\$ 54,276	\$79,458		

Product and Licenses

The increase in Product and licenses revenue for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 was primarily due to higher sales of our Delivery Networking products of \$20.4 million, primarily NetScaler, partially offset by an overall decrease in our Workspace Services products of \$6.3 million. The decrease in Product and licenses revenue for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 was primarily due to lower overall sales of our Workspace Services products of \$22.3 million and our Delivery Networking products of \$13.4 million, primarily ByteMobile Smart Capacity and CloudBridge. These Product and licenses revenue results were primarily due to the impact from the implementation of our 2015 Restructuring Program, organizational and leadership evolution and changes to our field and channel

strategies as discussed in the Executive Summary Overview

37

above. We currently target Product and licenses revenue to decrease when comparing the fourth quarter of 2015 to the fourth quarter of 2014.

Software as a Service

Software as a service revenue increased for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to increased sales of our Communications Cloud products of \$17.8 million, led by GoToMeeting, and increased sales of our Workflow Cloud products of \$7.2 million, led by ShareFile. Software as a service revenue increased for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to increased sales of our Communications Cloud products of \$36.5 million, led by GoToMeeting, and increased sales of our Workflow Cloud products of \$15.5 million, led by ShareFile. We currently target Software as a service revenue to increase when comparing the fourth quarter of 2015 to the fourth quarter of 2014.

License Updates and Maintenance

License updates and maintenance revenue increased for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to increased sales of software maintenance contracts across our Workspace Services products of \$33.1 million, partially offset by a decrease in our new Subscription Advantage product of \$15.0 million all resulting from the new software maintenance offerings implemented in 2015. License updates and maintenance revenue increased for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to an increase in hardware and software maintenance revenues of \$93.3 million, primarily driven by increased sales of maintenance revenues across our Workspace Services and Delivery Networking products, partially offset by a decrease in our Subscription Advantage product of \$19.4 million. We currently target License updates and maintenance revenue to increase when comparing the fourth quarter of 2015 to the fourth quarter of 2014.

Professional Services

The decrease in Professional services revenue when comparing the three months ended September 30, 2015 to the three months ended September 30, 2014 was primarily due to decreased implementation services related to our Workspace Services products consistent with the decrease in Workspace Services in product and licenses noted above. The decrease in Professional services revenue when comparing the nine months ended September 30, 2015 to the nine months ended September 30, 2014 was primarily due to decreased product training and certification and implementation services related to our Workspace Services products consistent with the decrease in Workspace Services in product and licenses noted above. We currently target Professional services revenue to decrease when comparing the fourth quarter of 2015 to the fourth quarter of 2014.

Deferred Revenue

Deferred revenues are primarily comprised of License updates and maintenance revenue from our Subscription Advantage product as well as maintenance contracts for our software and hardware products. Deferred revenues also include SaaS revenue from annual service agreements for our online services and Professional services revenue primarily related to our consulting contracts. Deferred revenues decreased approximately \$47.9 million as of September 30, 2015 compared to December 31, 2014 primarily due to a decrease in sales of our Subscription Advantage products of \$226.7 million and technical support of \$30.9 million, partially offset by an increase in software maintenance offerings of \$201.0 million resulting from the new software maintenance offerings implemented in 2015. We currently anticipate that deferred revenues will remain consistent in the fourth quarter of 2015.

International Revenues

International revenues (sales outside the United States) accounted for approximately 42.4% of our net revenues for the three months ended September 30, 2015 and 44.7% of our net revenues for the three months ended September 30, 2014. International revenues (sales outside the United States) accounted for approximately 43.0% of our net revenues for the nine months ended September 30, 2015 and 44.5% of our net revenues for the nine months ended September 30, 2014. See Note 9 to our condensed consolidated financial statements for detailed information on net revenues by geography.

Segment Revenues

Our revenues are derived from sales of Enterprise and Service Provider products which include Workspace Services solutions, Delivery Networking products and related License updates and maintenance and Professional services and from our Mobility Apps business unit's Communications Cloud and Workflow Cloud products. The Enterprise and Service Provider and the Mobility Apps business units constitute our two reportable segments.

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

38

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30, 2015 vs. September 30, 2014	%	Nine Months Ended September 30, 2015 vs. September 30, 2014	
	2015	2014	2015	2014				%
Enterprise and Service Provider	\$622,513	\$593,741	\$1,833,126	\$1,808,209	4.8	%	1.4	%
Mobility Apps	190,757	165,253	537,705	483,164	15.4	%	11.3	%
Net revenues	\$813,270	\$758,994	\$2,370,831	\$2,291,373	7.2	%	3.5	%

With respect to our segment revenues, the increase in net revenues for the comparative periods presented was due primarily to the factors previously discussed above. See Note 9 of our condensed consolidated financial statements for additional information on our segment revenues.

Cost of Net Revenues

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30, 2015 vs. September 30, 2014	%	Nine Months Ended September 30, 2015 vs. September 30, 2014	
	2015	2014	2015	2014				%
(In thousands)								
Cost of product and license revenues	\$34,859	\$24,045	\$83,833	\$88,144	\$10,814		\$(4,311))
Cost of services and maintenance revenues	91,295	87,981	270,218	254,763	3,314		15,455)
Amortization of product related intangible assets	20,100	23,959	57,560	102,660	(3,859)		(45,100))
Total cost of net revenues	\$146,254	\$135,985	\$411,611	\$445,567	\$10,269		\$(33,956))

Cost of product and license revenues consists primarily of hardware, shipping expense, royalties, product media and duplication, manuals and packaging materials. Cost of services and maintenance revenues consists primarily of compensation and other personnel-related costs of providing technical support and consulting, as well as the costs related to providing our Mobility Apps, which includes the cost to support the voice and video offerings in our Communications Cloud products. Also included in Cost of net revenues is amortization of product related intangible assets.

Cost of product and license revenues increased for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to increased sales of our Delivery Networking products, many of which contain hardware components that have a higher cost than our other software products. Cost of product and license revenues decreased for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to lower sales of our Delivery Networking products, many of which contain hardware components that have a higher cost than our other software products. We currently target a decrease in Cost of product and license revenues when comparing the fourth quarter of 2015 to the fourth quarter of 2014 consistent with the targeted decrease in Product and licenses revenue.

Cost of services and maintenance revenues increased for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to an increase in sales of our Communications and Workflow Cloud products of \$7.6 million, partially offset by a decrease in implementation services of \$4.9 million related to sales of our Workspace Services products. Cost of services and maintenance revenues increased for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to an increase in sales of our Communications and Workflow Cloud products of \$21.1 million and support and maintenance costs related to our Workspace Services and Delivery Networking products of \$3.9 million, partially offset by a decrease in

implementation services and product training and certification costs of \$9.8 million related to our Workspace Services products. We currently target Cost of services and maintenance revenues to increase when comparing the fourth quarter of 2015 to the fourth quarter of 2014, consistent with the targeted increases in Software as a service revenue and License updates and maintenance revenue as discussed above.

Amortization of product related intangible assets decreased for the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014 primarily as a result of certain intangible assets becoming fully amortized and from the impairments of certain acquired intangible assets in 2014.

Gross Margin

Gross margin as a percentage of revenue was 82.0% for the three months ended September 30, 2015 and 82.1% for the three months ended September 30, 2014. The decrease in gross margin when comparing the three months ended September 30, 2015 to September 30, 2014 was not significant. Gross margin as a percentage of revenue was 82.6% for the nine months ended September 30, 2015 and 80.6% for the nine months ended September 30, 2014. The increase in gross margin as a percentage of revenue for the nine months ended September 30, 2015 compared to September 30, 2014 is a result of certain intangible assets becoming fully amortized and from the impairments of certain acquired intangible assets in 2014. When comparing the fourth quarter of 2015 to the fourth quarter of 2014, we expect gross margin to increase, and when comparing the full year 2015 to the full year 2014, we expect gross margin to increase primarily due to 2014 including impairment charges recorded in relation to certain product related intangible assets.

Operating Expenses

Foreign Currency Impact on Operating Expenses

The functional currency for all of our wholly-owned foreign subsidiaries is the U.S. dollar. 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 12 months in advance of anticipated foreign currency expenses. When the dollar is weak, the resulting increase to foreign currency denominated expenses will be partially offset by the gain in our hedging contracts. When the dollar is strong, the resulting decrease to foreign currency denominated expenses will be partially offset by the loss in our hedging contracts. There is a risk that there will be fluctuations in foreign currency exchange rates beyond the timeframe for which we hedge our risk. Effective in January 2015, the functional currency of our wholly-owned foreign subsidiaries of our Mobility Apps business unit became the U.S. dollar as a result of a reorganization in the foreign subsidiaries' operations.

Research and Development Expenses

	Three Months Ended		Nine Months Ended		Three Months Ended	Nine Months Ended
	September 30,		September 30,		September 30, 2015	September 30,
	2015	2014	2015	2014	vs. September 30, 2014	vs. September 30, 2014
	(In thousands)					
Research and development	\$139,128	\$137,877	\$423,972	\$411,870	\$1,251	\$12,102

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

Research and development expenses increased during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to compensation of \$7.1 million primarily related to a net increase in headcount driven by our acquisition activity and continued investments in product development and design research, partially offset by a decrease in stock-based compensation of \$4.9 million resulting from restructuring initiatives.

Research and development expenses increased during nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to an increase in compensation and employee-related costs of \$21.3 million primarily related to a net increase in headcount driven by our acquisition activity and continued investments in product development and design research, partially offset by a decrease in stock-based compensation of \$10.6 million resulting from restructuring initiatives.

Sales, Marketing and Services Expenses

	Three Months Ended		Nine Months Ended		Three Months Ended	Nine Months Ended
--	--------------------	--	-------------------	--	--------------------	-------------------

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

	September 30, 2015	2014	September 30, 2015	2014	September 30, 2015 vs. September 30, 2014	September 30, 2015 vs. September 30, 2014
	(In thousands)					
Sales, marketing and services	\$293,587	\$318,252	\$896,250	\$956,287	\$ (24,665)	\$(60,037)

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

Sales, marketing and services expenses decreased during the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014 primarily due to a decrease in compensation and other employee-related costs as a result of restructuring initiatives.

General and Administrative Expenses

	Three Months Ended		Nine Months Ended		Three Months Ended	Nine Months Ended
	September 30,		September 30,		September 30, 2015	September 30, 2015
	2015	2014	2015	2014	vs. September 30, 2014	vs. September 30, 2014
	(In thousands)					
General and administrative	\$79,799	\$95,203	\$241,697	\$242,606	\$(15,404)	\$(909)

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

General and administrative expenses decreased for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to the three months ended September 30, 2014 including a charge related to a patent lawsuit of \$20.7 million, partially offset by an increase in certain facility and depreciation costs of \$3.8 million and an increase in professional services of \$3.1 million in connection with the operational and strategic review of the business as discussed in the Executive Summary above.

General and administrative expenses decreased for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to the nine months ended September 30, 2014 including a charge related to a patent lawsuit of \$20.7 million and a decrease in stock based compensation of \$5.6 million as a result of restructuring initiatives, partially offset by an increase in professional services of \$14.5 million in connection with the operational and strategic review of the business as discussed in the Executive Summary above and an increase in certain facility and depreciation costs of \$11.1 million.

Amortization and Impairment of Other Intangible Assets

	Three Months Ended		Nine Months Ended		Three Months Ended	Nine Months Ended
	September 30,		September 30,		September 30, 2015	September 30, 2015
	2015	2014	2015	2014	vs. September 30, 2014	vs. September 30, 2014
	(In thousands)					
Amortization and impairment of Other Intangible Assets	\$76,938	\$9,956	\$97,371	\$32,855	\$66,982	\$64,516

Amortization and impairment of other intangible assets consists of amortization of customer relationships, trade names and covenants not to compete primarily related to our acquisitions and impairment charges.

The increase in Amortization and impairment of other intangible assets when comparing the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014 was primarily due to impairments of certain intangible assets in the three months ended September 30, 2015 within the Enterprise and Service Provider segment related to ByteMobile.

Restructuring Expenses

	Three Months Ended		Nine Months Ended		Three Months Ended	Nine Months Ended
	September 30,		September 30,		September 30, 2015	September 30, 2015
	2015	2014	2015	2014	vs. September 30, 2014	vs. September 30, 2014
	(In thousands)					

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

Restructuring	\$13,766	\$3,124	\$62,251	\$17,285	\$10,642	\$44,966
---------------	----------	---------	----------	----------	----------	----------

On January 28, 2015, we announced the implementation of a restructuring program designed to increase strategic focus and operational efficiency and began to execute against the program in February 2015. As a result, we eliminated approximately 700 full-time positions in the first half of 2015. During the three and nine months ended September 30, 2015, we incurred \$14.0 million and \$60.5 million, respectively, primarily related to employee severance arrangements and the consolidation of leased facilities. It is anticipated that the aggregate total pre-tax restructuring charges will be in the range of \$66.0 million to \$70.0 million. Included in these pre-tax charges are approximately \$49.0 million to \$51.0 million related to

employee severance arrangements and approximately \$17.0 million to \$19.0 million related to the consolidation of leased facilities during fiscal year 2015. The majority of the activities related to the 2015 Restructuring Program are anticipated to be completed by the end of 2015.

Additionally, in March 2014, we implemented the 2014 Restructuring Program, which included the reduction of our headcount by approximately 325 full-time positions since inception. The pre-tax charges we incurred were primarily related to severance and other costs directly related to the reduction of our workforce. The activities under the 2014 Restructuring Program were substantially completed as of the three months ended March 31, 2015. For more information, see “—Executive Summary— Overview” and Note 17 to our condensed consolidated financial statements.

2015 Operating Expense Outlook

When comparing the fourth quarter of 2015 to the fourth quarter of 2014, we are targeting an overall decrease in Operating expenses with an expected decrease in Sales, marketing and services offset by expected increases in General and administrative and Research and Development as we continue to simplify focus and portfolio, and rebalance our investments. We also expect to incur additional charges in the fourth quarter of 2015 related to the 2015 Restructuring Program and costs related to the activities for exploring strategic alternatives related to our ByteMobile business and our GoTo family of products.

Interest Expense

	Three Months Ended		Nine Months Ended		Three Months Ended	Nine Months Ended
	September 30,		September 30,		September 30, 2015	September 30,
	2015	2014	2015	2014	vs. September 30,	vs. September 30,
					2014	2014
	(In thousands)					
Interest expense	\$11,075	\$10,551	\$33,196	\$17,601	\$ 524	\$15,595

Interest expense consists primarily of interest on our convertible senior notes and credit facility. The increase was primarily due to interest expense associated with the issuance of our convertible senior notes we entered into in April 2014 and amounts that were outstanding under our credit facility during the nine months ended September 30, 2015.

Other Expense, Net

	Three Months Ended		Nine Months Ended		Three Months Ended	Nine Months Ended
	September 30,		September 30,		September 30, 2015	September 30,
	2015	2014	2015	2014	vs. September 30,	vs. September 30,
					2014	2014
	(In thousands)					
Other expense, net	\$(2,369)	\$(2,235)	\$(13,480)	\$(6,002)	\$(134)	\$(7,478)

Other expense, net is primarily comprised of gains (losses) from remeasurement of foreign currency transaction, realized losses related to changes in the fair value of our investments that have a decline in fair value considered other-than-temporary and recognized gains (losses) related to our investments, which was not material for all periods presented.

The change in Other expense, net during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 is primarily driven by a net loss on remeasurement and settlements of foreign currency transactions.

The change in Other expense, net during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 is primarily driven by an increase in losses on the remeasurement and settlements of foreign currency transactions of \$10.4 million and gains recognized on cost method investments of \$4.3 million during the nine months ended September 30, 2014, partially offset by an impairment charge of \$5.2 million recognized on cost method investments during the nine months ended September 30, 2014.

Income Taxes

Edgar Filing: CITRIX SYSTEMS INC - Form 10-Q

As of September 30, 2015, our net unrecognized tax benefits totaled approximately \$48.3 million as compared to \$66.9 million as of December 31, 2014. All amounts included in the balance at September 30, 2015 for tax positions would affect the annual effective tax rate if recognized. We have \$0.5 million accrued for the payment of interest and penalties as of September 30, 2015.

We and one or more of our subsidiaries are subject to federal income taxes in the United States, as well as income taxes of multiple state and foreign jurisdictions. We are no longer subject to U.S. federal income tax examinations by tax authorities

for years prior to 2013. With few exceptions, we are no longer subject to state and local tax or non-U.S. income tax examinations by tax authorities for years prior to 2011.

During the quarter ended June 30, 2015, the Internal Revenue Service (“IRS”) concluded its field examination of our 2011 and 2012 tax years and issued proposed adjustments primarily related to transfer pricing and the research and development tax credit. In June 2015, we finalized its tax deficiency calculations and formally closed the audit with the IRS for the 2011 and 2012 tax years. As a result, we recognized a net tax benefit of \$20.3 million during the period related to the settlement.

In the ordinary course of global business, there are transactions for which the ultimate tax outcome is uncertain; thus judgment is required in determining the worldwide provision for income taxes. We provide for income taxes on transactions based on our estimate of the probable liability. We adjust our provision as appropriate for changes that impact our underlying judgments. Changes that impact provision estimates include such items as jurisdictional interpretations on tax filing positions based on the results of tax audits and general tax authority rulings. Due to the evolving nature of tax rules combined with the large number of jurisdictions in which we operate, it is possible that our estimates of our tax liability and the realizability of our deferred tax assets could change in the future, which may result in additional tax liabilities and adversely affect our results of operations, financial condition and cash flows. At September 30, 2015, we had approximately \$152.0 million in net deferred tax assets. The authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. 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. During the quarter ended September 30, 2015, we did not record a change in our valuation allowance.

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. We maintain certain strategic management and operational activities in overseas subsidiaries and its foreign earnings are taxed at rates that are generally lower than in the United States. We do not expect to remit earnings from its foreign subsidiaries. Our effective tax rate was approximately (4.8)% and 1.4% for the three months ended September 30, 2015 and 2014, and 5.8% and 6.9% for the nine months ended September 30, 2015 and 2014, respectively. The decrease in the effective tax rate when comparing the three months ended September 30, 2015 to the three months ended September 30, 2014 was due to a change in the mix of income between our U.S. and foreign operations driven by impairment charges of certain domestic intangible assets from the acquisition of ByteMobile recorded in the third quarter of 2015. The decrease in the effective tax rate when comparing the nine months ended September 30, 2015 to the nine months ended September 30, 2014 was due to the impact of settling the IRS examination for the tax years 2011 and 2012 that closed during the three months ended June 30, 2015 and the impact of the intangible asset impairment recorded in the three months ended September 30, 2015. We currently are targeting our effective tax rate to increase when comparing the fourth quarter of 2015 to the fourth quarter of 2014.

Our effective tax rate generally differs from the U.S. federal statutory rate of 35% due primarily to lower tax rates on earnings generated by our foreign operations that are taxed primarily in Switzerland. We have not provided for U.S. taxes for those earnings because we plan to reinvest all of those earnings indefinitely outside the United States. From time to time, there may be other items that impact the tax rate, such as the items discussed above.

Liquidity and Capital Resources

During the nine months ended September 30, 2015, we generated operating cash flows of \$752.8 million. These operating cash flows related primarily to net income of \$188.1 million, adjusted for, among other things, non-cash charges, depreciation and amortization expenses of \$268.9 million and stock-based compensation expense of \$103.7 million. Also contributing to these cash inflows was a change in operating assets and liabilities of \$174.8 million, net of effect of our acquisitions. Our investing activities used \$119.7 million of cash consisting primarily of cash paid for acquisitions of \$251.0 million, cash paid for the purchase of property and equipment of \$119.6 million, partially offset by net proceeds from investments of \$261.6 million. Our financing activities used cash of \$356.4 million primarily due to cash paid for stock repurchases of \$398.1 million and cash paid for tax withholding on vested stock awards of \$32.4 million, partially offset by the issuance of common stock under our employee stock-based compensation plans

of \$79.3 million.

During the nine months ended September 30, 2014, we generated operating cash flows of \$655.6 million. These operating cash flows related primarily to net income of \$156.5 million, adjusted for, among other things, non-cash charges, depreciation and amortization expenses of \$236.8 million and stock-based compensation expense of \$128.4 million. Also contributing to these cash inflows was a change in operating assets and liabilities of \$139.0 million, net of effect of our acquisitions. Our investing activities used \$436.2 million of cash consisting primarily of net purchases of investments of \$264.8 million, cash

43

paid for the purchase of property and equipment of \$115.4 million and cash paid for acquisitions of \$43.3 million. Our financing activities used cash of \$255.5 million primarily due to cash paid for stock repurchases of \$1.6 billion, the purchase of hedges on the convertible senior notes of \$184.3 million and cash paid for tax withholding on vested stock awards of \$27.8 million, partially offset by proceeds from the issuance of convertible senior notes of \$1.4 billion, proceeds from the issuance of warrants of \$101.8 million and the issuance of common stock under our employee stock-based compensation plans of \$38.7 million.

Credit Facility

On January 7, 2015, we entered into a credit agreement, or Credit Agreement with Bank of America, N.A., as Administrative Agent, and the other lenders party thereto from time to time (collectively, the "Lenders"). The Credit Agreement provides for a \$250.0 million unsecured revolving credit facility for a term of five years, of which we have drawn and repaid \$95.0 million during the nine months ended September 30, 2015. We may elect to increase the revolving credit facility by up to \$250.0 million if existing or new lenders provide additional revolving commitments in accordance with the terms of the Credit Agreement. The proceeds of borrowings under the Credit Agreement may be used for working capital and general corporate purposes, including acquisitions. Borrowings under the Credit Agreement will bear interest at a rate equal to either (a) a customary London interbank offered rate formula or (b) a customary base rate formula, plus the applicable margin with respect thereto, in each case as set forth in the Credit Agreement.

The Credit Agreement requires us to maintain a consolidated leverage ratio of not more than 3.5:1.0 and a consolidated interest coverage ratio of not less than 3.0:1.0. The Credit Agreement includes customary events of default, with corresponding grace periods in certain circumstances, including, without limitation, payment defaults, cross-defaults, the occurrence of a change of control and bankruptcy-related defaults. The Lenders are entitled to accelerate repayment of the loans under the Credit Agreement upon the occurrence of any of the events of default. In addition, the Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict our ability to grant liens, merge or consolidate, dispose of all or substantially all of our assets, change our business and incur subsidiary indebtedness, in each case subject to customary exceptions for a credit facility of this size and type. In addition, the Credit Agreement contains customary representations and warranties. Please see Note 11 to our condensed consolidated financial statements for additional details on our Credit Agreement.

Convertible Senior Notes

In April 2014, we completed a private placement of \$1.44 billion principal amount of 0.500% Convertible Senior Notes due 2019, or the Convertible Notes. The net proceeds from this offering were approximately \$1.42 billion (including the proceeds from the Over-Allotment Option), after deducting the initial purchasers' discounts and commissions and the offering expenses payable by us. We used approximately \$82.5 million of the net proceeds to pay the cost of certain bond hedges entered into in connection with the offering (after such cost was partially offset by the proceeds to us from certain warrant transactions). Please see Note 10 to our condensed consolidated financial statements for additional details on the Convertible Notes offering and the related bond hedges and warrant transactions.

We used the remainder of the net proceeds from the offering and a portion of our existing cash and investments to purchase an aggregate of approximately \$1.5 billion of our common stock under our share repurchase program. We used approximately \$101.0 million to purchase shares of our common stock from certain purchasers of the Convertible Notes in privately negotiated transactions concurrently with the closing of the offering, and the remaining \$1.4 billion to purchase additional shares of our common stock through an accelerated share repurchase transaction, or the ASR, which we entered into with Citibank, N.A., or Citibank, on April 25, 2014, and which is discussed in further detail in Note 15 to our condensed consolidated financial statements. We intend to use the remaining net proceeds resulting from the exercise of the Over-Allotment Option for working capital and general corporate purposes. Historically, significant portions of our cash inflows were generated by our operations. We currently expect this trend to continue throughout 2015. We believe that our existing cash and investments together with cash flows expected from operations will be sufficient to meet expected operating and capital expenditure requirements for the next 12 months. We continue to search for suitable acquisition candidates and could acquire or make investments in companies we believe are related to our strategic objectives. We could from time to time continue to seek to raise

additional funds through the issuance of debt or equity securities for larger acquisitions and for general corporate purposes.

44

Cash, Cash Equivalents and Investments

	September 30, 2015 (In thousands)	December 31, 2014	2015 Compared to 2014
Cash, cash equivalents and investments	\$1,865,062	\$1,862,519	\$2,543

The increase in Cash, cash equivalents and investments when comparing September 30, 2015 to December 31, 2014, is primarily due to cash provided by our operating activities of \$752.8 million and proceeds from the issuance of common stock under our employee stock-based compensation plans of \$79.3 million, partially offset by cash paid for stock repurchases of \$398.1 million, cash paid for acquisitions, net of cash acquired, of \$251.0 million, purchases of property and equipment of \$119.6 million and cash paid for tax withholding on vested stock awards of \$32.4 million. As of September 30, 2015, \$1.52 billion of the \$1.87 billion of Cash, cash equivalents and investments was held by our foreign subsidiaries. If these funds are needed for our operations in the United States, we would be required to accrue and pay U.S. taxes to repatriate these funds. Our current plans are not expected to require repatriation of cash and investments to fund our U.S. operations and, as a result, we intend to permanently reinvest our foreign earnings. 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.

Fair Value Measurements

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

- Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Available-for-sale securities included in Level 2 are valued utilizing inputs obtained from an independent pricing service, or the Service, which uses quoted market prices for identical or comparable instruments rather than direct observations of quoted prices in active markets. The Service applies a four level hierarchical pricing methodology to all of our fixed income securities based on the circumstances. The hierarchy starts with the highest priority pricing source, then subsequently uses inputs obtained from other third-party sources and large custodial institutions. The Service's providers utilize a variety of inputs to determine their quoted prices. These inputs may include interest rates, known historical trades, yield curve information, benchmark data, prepayment speeds, credit quality and broker/dealer quotes. Substantially all of our available-for-sale investments are valued utilizing inputs obtained from the Service and accordingly are categorized as Level 2. We periodically independently assess the pricing obtained from the Service and historically have not adjusted the Service's pricing as a result of this assessment. Available-for-sale securities are included in Level 3 when relevant observable inputs for a security are not available.

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Our fixed income available-for-sale security portfolio generally consists of investment grade securities from diverse issuers with a minimum credit rating of A-/A3 and a weighted average credit rating of AA-/Aa3. We value these securities based on pricing from the Service, whose sources may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value, and accordingly, we classify all of our fixed income available-for-sale securities as

Level 2.

We measure our cash flow hedges, which are classified as Prepaid expenses and other current assets and Accrued expenses and other current liabilities, at fair value based on indicative prices in active markets (Level 2 inputs).

45

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

We have invested in convertible debt securities of certain early-stage entities that are classified as available-for-sale investments. As quoted prices in active markets or other observable inputs were not available for these investments, in order to measure them at fair value, we utilized a discounted cash flow model using a discount rate reflecting the market risk inherent in holding securities of an early-stage enterprise, adjusted by the probability-weighted exit possibilities associated with the convertible debt securities. Typically the discount rate used by us in measuring the fair value of investments in convertible debt securities of certain early-stage entities is commensurate with the nature and size of these entities. This methodology required us to make assumptions that were not directly or indirectly observable regarding the fair value of the convertible debt securities; accordingly they are a Level 3 valuation and are included in the table below. See Note 5 to our condensed consolidated financial statements for more information regarding our available-for-sale investments.

	Corporate Securities (In thousands)
Balance at December 31, 2014	\$6,073
Purchases of Level 3 securities	1,475
Proceeds received on Level 3 securities	(101)
Transfers out of Level 3	(447)
Total net realized losses included in earnings	(838)
Balance at September 30, 2015	\$6,162

Transfers out of Level 3 relate to certain of our investments in convertible debt securities of early-stage entities that were reclassified from available-for-sale investments to cost method investments upon conversion to equity ownership. These amounts are included in Other assets in our accompanying consolidated balance sheets. Realized losses included in earnings for the period are reported in Other expense, net in the accompanying consolidated statements of income.

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

During the nine months ended September 30, 2015, certain cost method investments with a combined carrying value of \$3.0 million were determined to be impaired and written down to zero. The impairment charge is included in Other expense, net in the accompanying condensed consolidated financial statements. In determining the fair value of cost method investments, we considered many factors including but not limited to operating performance of the investee, the amount of cash that the investee has on-hand, the ability to obtain additional financing and the overall market conditions in which the investee operates. The fair value of the cost method investments represent a Level 3 valuation as the assumptions used in valuing these investments were not directly or indirectly observable.

For certain intangible assets where the unamortized balances exceeded the undiscounted future net cash flows, we measure the amount of the impairment by calculating the amount by which the carrying values exceed the estimated fair values, which are based on projected discounted future net cash flows. These non-recurring fair value measurements are categorized as Level 3 significant unobservable inputs. See Note 8 to our condensed consolidated financial statements for detailed information related to Goodwill and Other Intangible Assets.

Accounts Receivable, Net

	September 30, 2015 (In thousands)	December 31, 2014	2015 Compared to 2014
Accounts receivable	\$474,232	\$680,377	\$(206,145)
Allowance for returns	(1,131)	(2,185)	1,054
Allowance for doubtful accounts	(5,286)	(3,791)	(1,495)
Accounts receivable, net	\$467,815	\$674,401	\$(206,586)

The decrease in Accounts receivable, net, when comparing September 30, 2015 to December 31, 2014 was primarily due to increased collections during the nine months ended September 30, 2015 on higher sales in the fourth quarter of 2014. The activity in our Allowance for returns was comprised primarily of \$3.5 million in credits issued for returns during the nine month period ended September 30, 2015, partially offset by \$2.5 million of provisions for returns recorded during the nine month period ended September 30, 2015. The activity in our Allowance for doubtful accounts was comprised primarily of \$3.2 million in additional provisions for doubtful accounts during the nine month period ended September 30, 2015 partially offset

by \$1.7 million of uncollectible accounts written off, net of recoveries during the nine month period ended September 30, 2015. From time to time, we could maintain individually significant accounts receivable balances from our distributors or customers, which are comprised of large business enterprises, governments and small and medium-sized businesses. If the financial condition of our distributors or customers deteriorates, our operating results could be adversely affected.

Stock Repurchase Programs

Our Board of Directors authorized an ongoing stock repurchase program with a total repurchase authority granted to us of \$5.9 billion, of which \$500.0 million was approved in September 2015. 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, 2015, approximately \$336.8 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 net 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 through open market purchases or pursuant to a Rule 10b5-1 plan or in privately negotiated transactions.

During the three months ended September 30, 2015, we expended approximately \$279.5 million on open market purchases under the stock repurchase program, repurchasing 3,895,283 shares of outstanding common stock at an average price of \$71.75. During the nine months ended September 30, 2015, we expended approximately \$451.6 million on open market purchases under the stock repurchase program, repurchasing 6,588,783 shares of outstanding common stock at an average price of \$68.54. Of the amount expended, \$53.6 million had not yet settled as of September 30, 2015 and therefore was excluded from the amount reflected in Stock repurchases, net in the statement of cash flows as it is considered a non-cash item.

In April 2014, in connection with the \$1.5 billion increase in repurchase authority granted to us under our ongoing stock repurchase program, we used approximately \$101.0 million to purchase 1.7 million shares of our common stock from certain purchasers of the Convertible Notes in privately negotiated transactions concurrently with the closing of the Convertible Notes offering discussed above, and an additional \$1.4 billion to purchase additional shares of our common stock through our ASR with Citibank. On April 30, 2014, under the ASR agreement, we paid approximately \$1.4 billion to Citibank and received approximately 21.8 million shares of our common stock, including approximately 2.6 million shares delivered in October 2014 in final settlement in connection with Citibank's election to accelerate the ASR. The total number of shares of our common stock that we repurchased under the ASR Agreement was based on the average of the daily volume-weighted average prices of our common stock during the term of the ASR Agreement, less a discount. See Note 10 to our condensed consolidated financial statements for detailed information on our Convertible Notes offering and the transactions related thereto, including the ASR.

During the three and nine months ended September 30, 2014, we expended approximately \$99.9 million on open market purchases under the stock repurchase program, repurchasing 1,434,400 shares of outstanding common stock at an average price of \$69.71.

Shares for Tax Withholding

During the three months ended September 30, 2015, we withheld 55,963 shares from stock units that vested, totaling \$4.1 million, to satisfy minimum tax withholding obligations that arose on the vesting of stock units. During the nine months ended September 30, 2015, we withheld 501,785 shares from stock units that vested, totaling \$32.4 million, to satisfy minimum tax withholding obligations that arose on the vesting of stock units. During the three months ended September 30, 2014, we withheld 75,797 shares from stock units that vested, totaling \$4.9 million, to satisfy minimum tax withholding obligations that arose on the vesting of stock units. During the nine months ended September 30, 2014, we withheld 470,567 shares from stock units that vested, totaling \$27.8 million, to satisfy minimum tax withholding obligations that arose on the vesting of stock units. These shares are reflected as treasury stock in our condensed consolidated balance sheets and the related cash outlays do not reduce our total stock repurchase authority.

Off-Balance Sheet Arrangements

We do not have any special purpose entities or off-balance sheet financing arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes during the quarter ended September 30, 2015 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, 2014.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2015, our management, with the participation of our principal executive and principal financial officers, 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 principal executive officer and our principal financial officer concluded that, as of September 30, 2015, 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 by and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2015, 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

In April 2014, John Calma, ostensibly on behalf of Citrix, filed a shareholder derivative complaint against certain of our directors (and Citrix as a nominal defendant) in the Court of Chancery of the State of Delaware. The complaint alleges breach of fiduciary duty, waste of corporate assets and unjust enrichment related to stock awards that the directors received under our director compensation program. The complaint seeks among other things the recovery of monetary damages and other relief for damages allegedly caused to Citrix. We believe that our directors and Citrix have meritorious defenses to these allegations and that it is not reasonably possible that the ultimate outcome of this suit will materially and adversely affect our business, financial condition, results of operations or cash flows.

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 alleging infringement by various Citrix products and services, or the other matters. We believe that we have meritorious defenses to the allegations made in our pending cases 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. 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 outcomes of these cases, we believe that it is not reasonably possible that the ultimate outcomes will materially and adversely 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, 2014, which was filed with the Securities and Exchange Commission on February 19, 2015.

In order to be successful, we must attract, engage, retain and integrate key employees and have adequate succession plans in place, and failure to do so could have an adverse effect on our ability to manage our business.

Our success depends, in large part, on our ability to attract, engage, retain, and integrate qualified executives and other key employees throughout all areas of our business. Identifying, developing internally or hiring externally, training and retaining highly-skilled managerial, technical, sales and services, finance and marketing personnel are critical to our future, and competition for experienced employees can be intense. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash- and equity-based compensation. If we do not obtain the stockholder approval needed to continue granting equity compensation in a competitive manner, our ability to attract, retain, and motivate executives and key employees could be weakened. Failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations. Further, changes in our management team may be disruptive to our business, and any failure to successfully integrate key new hires or promoted employees could adversely affect our business and results of operations. Competition for qualified personnel in our industry is intense because of the limited number of people available with the necessary technical skills and understanding of products in our industry. The loss of services of any key personnel, the inability to retain and attract qualified personnel in the future or delays in hiring may harm our business and results of operations.

Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution. On July 28, 2015, we announced that Mark B. Templeton, our then President and Chief Executive Officer, informed our Board of his plans to retire. On October 21, 2015, Mr. Templeton retired and our Board appointed Robert M. Calderoni, our Executive Chairman of the Board, as Interim Chief Executive Officer and President. Our CEO search process, which is being led by a search committee of the Board, to identify a candidate for a permanent Chief Executive Officer and President continues, and we continue to work with an executive search firm to assist with the process of identifying and evaluating candidates. There are no assurances concerning the timing or outcome of our

search for a new Chief Executive Officer. Our ability to execute our business strategies and attract and retain key executives may be adversely affected by the uncertainty associated with the transition to a successor Chief Executive Officer.

We may engage in further cost-reduction activities and other organizational changes that may not result in the anticipated benefits to our business, results of operations and financial condition.

Building upon our previous initiatives to increase our strategic focus and operational efficiency, our Board has formed an Operations Committee to work with our management team on a comprehensive operational review, including, among other things, a review of our operating margins, profitability and capital structure. The review by the Operations Committee may result in additional activities by our company focused on reducing costs, improving margins and increasing efficiency, as well as other organizational changes. We cannot assure you that any such activities will result in the anticipated benefits to our business, results of operations and financial condition in a timely manner or at all. Further, we could experience unexpected delays, business disruptions, decreased productivity, and employee turnover as a result of such initiatives.

Our review of strategic alternatives for our GoTo family of products is subject to various risks and uncertainties, and there is no assurance that any transaction will be completed on favorable terms, on a timely basis, or at all.

On July 28, 2015, we announced that, with the assistance of our independent advisors, we have initiated a review of strategic alternatives for our GoTo family of products. The strategic alternatives review for this business could result in, among other things, a possible sale or spin-off transaction. There is no assurance that, following such review, we will move forward with a transaction or that any transaction we pursue will be completed on favorable terms, on a timely basis, or at all. This process and any resulting transaction may be time-consuming and involve significant costs and expenses and present additional risks, including:

- diversion of management's attention from other business concerns;
- disruption of our business;
- loss of customers and other business opportunities;
- challenges in attracting, retaining and motivating key employees; and
- difficulties associated with the separation of operations, services, products and personnel if a transaction is pursued.

We may not be successful in managing these or any other significant risks that we encounter in exploring the divestiture of a product or service offering. Moreover, if a transaction is completed, we may not realize some or all of the anticipated benefits, and such transaction may in fact adversely affect our business, results operations and financial condition.

We are exposed to fluctuations in foreign currency exchange rates, which could adversely affect our future operating results.

Our results of operations are subject to fluctuations in exchange rates, which could adversely affect our future revenue and overall operating results. In order to minimize volatility in earnings associated with fluctuations in the value of foreign currency relative to the U.S. dollar, we use financial instruments to hedge our exposure to foreign currencies as we deem appropriate for a portion of our expenses, which are denominated in the local currency of our foreign subsidiaries. We generally initiate our hedging of currency exchange risks one year in advance of anticipated foreign currency expenses for those currencies to which we have the greatest exposure. 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 our hedging contracts. If the dollar is strong, foreign currency denominated expenses will be lower. These lower expenses will in turn be partially offset by the losses incurred from 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 and there is no guarantee that we will accurately forecast the expenses we are hedging. Further, a substantial portion of our overseas assets and liabilities are denominated in local currencies. To protect against fluctuations in earnings caused by changes in currency exchange rates when remeasuring our balance sheet, we utilize foreign exchange forward contracts to hedge our exposure to this potential volatility. There is no assurance that our hedging strategies

will be effective. In addition, as a result of entering into these contracts with counterparties who are unrelated to us, the risk of a counterparty default exists in fulfilling the hedge contract. Should there be a counterparty default, we could be unable to recover anticipated net gains from the transactions.

50

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 \$5.9 billion, of which \$500.0 million was approved in September 2015. The objective of the stock repurchase program is to improve stockholders' returns. As of September 30, 2015, approximately \$336.8 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, 2015:

	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (In thousands) (2)
July 1, 2015 through July 31, 2015	58,463	\$ 74.83	22,300	\$ 114,579,324
August 1, 2015 through August 31, 2015	480,899	73.89	480,700	79,060,206
September 1, 2015 through September 30, 2015	3,411,884	71.40	3,392,283	336,772,881
Total	3,951,246		3,895,283	336,772,881

(1) Represents shares acquired in open market purchases and 55,963 shares withheld from stock units that vested in the third quarter of 2015 to satisfy minimum tax withholding obligations that arose on the vesting of stock units. We expended approximately \$279.5 million during the quarter ended September 30, 2015 for repurchases of our common stock. For more information see Note 15 to our condensed consolidated financial statements.

(2) Shares withheld from stock units that vested to satisfy minimum tax withholding obligations that arose on the vesting of stock units do not deplete the dollar amount available for purchases under the repurchase program.

ITEM 5. OTHER INFORMATION

Rule 10b5-1 Trading Plans

Our policy governing transactions in our securities by our directors, officers and employees permits our 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. We have been advised that David J. Henshall, our Executive Vice President, Chief Operating Officer and Chief Financial Officer, Klaus Oestermann, our Senior Vice President and General Manager, Delivery Networks, Mark B. Templeton, our former President, Chief Executive Officer and Director, and Christopher Hylan, our Senior Vice President and General Manager, Mobility Apps, each entered into a new trading plan in the third quarter of 2015 in accordance with Rule 10b5-1 and our policy governing transactions in our securities. We undertake no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan.

ITEM 6. EXHIBITS

(a) List of exhibits

Exhibit No.	Description
3.1	Amended and Restated Bylaws of Citrix Systems, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed July 31, 2015)
10.1*	Form of Incentive Agreement by and between the Citrix Systems, Inc. and each of David R. Friedman, David J. Henshall, Christopher Hylen, Klaus Oestermann, T. Geir Ramleth and Carlos Sartorius
10.2	Cooperation Agreement, by and among Citrix Systems, Inc., Elliott Associates, L.P., Elliott International, L.P. and Elliott International Capital Advisors Inc., dated July 28, 2015 (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed July 28, 2015)
10.3	First Amendment to Credit Agreement, dated as of August 7, 2015, by and among Citrix Systems, Inc., the lenders named therein and Bank of America, N.A., as Administrative Agent
10.4*	Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan for Robert Calderoni granted August 1, 2015 (Time Based Awards)
10.5*	Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan for Robert Calderoni granted August 1, 2015 (Performance Based Awards)
10.6*	Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan for Robert Calderoni granted August 1, 2015 (Performance Based Awards)
10.7*	Form of Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan for each of David J. Henshall, Christopher Hylen, Klaus Oestermann, Carlos Sartorius and T. Geir Ramleth (Performance Based Awards)
31.1	Rule 13a-14(a) / 15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a) / 15d-14(a) Certification of Principal Financial Officer
32.1†	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document

101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

† Furnished herewith.

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 2015.

CITRIX SYSTEMS,
INC.

By:

/s/ DAVID J. HENSHALL

David J. Henshall

Executive Vice President, Chief Operating Officer
and Chief Financial Officer

(Authorized Officer and Principal Financial Officer)

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Bylaws of Citrix Systems, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed July 31, 2015)
10.1*	Form of Incentive Agreement by and between the Citrix Systems, Inc. and each of David R. Friedman, David J. Henshall, Christopher Hylen, Klaus Oestermann, T. Geir Ramleth and Carlos Sartorius
10.2	Cooperation Agreement, by and among Citrix Systems, Inc., Elliott Associates, L.P., Elliott International, L.P. and Elliott International Capital Advisors Inc., dated July 28, 2015 (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed July 28, 2015)
10.3	First Amendment to Credit Agreement, dated as of August 7, 2015, by and among Citrix Systems, Inc., the lenders named therein and Bank of America, N.A., as Administrative Agent
10.4*	Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan for Robert Calderoni granted August 1, 2015 (Time Based Awards)
10.5*	Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan for Robert Calderoni granted August 1, 2015 (Performance Based Awards)
10.6*	Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan for Robert Calderoni granted August 1, 2015 (Performance Based Awards)
10.7*	Form of Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan for each of David J. Henshall, Christopher Hylen, Klaus Oestermann, Carlos Sartorius and T. Geir Ramleth (Performance Based Awards)
31.1	Rule 13a-14(a) / 15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a) / 15d-14(a) Certification of Principal Financial Officer
32.1†	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer
101.INS	XBRL Instance Document

101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

† Furnished herewith.

