CITRIX SYSTEMS INC
Form 10-K
February 15, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission File Number 0-27084

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

Delaware	75-2275152
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

851 West Cypress Creek Road
Fort Lauderdale, Florida 33309
(Address of principal executive offices, including zip code)
Registrant's Telephone Number, Including Area Code:
(954) 267-3000

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $.001 Par Value	The Nasdaq Stock Market LLC
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

x	Large accelerated filer	o	Accelerated filer
o	Non-accelerated filer	o	Smaller reporting company
		o	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act. o

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

The aggregate market value of Common Stock held by non-affiliates of the registrant computed by reference to the price of the registrant's Common Stock as of the last business day of the registrant's most recently completed second fiscal quarter (based on the last reported sale price on The Nasdaq Global Select Market as of such date) was $13,765,749,900. As of February 8, 2019 there were 131,725,833 shares of the registrant's Common Stock, $.001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file a definitive proxy statement pursuant to Regulation 14A within 120 days of the end of the fiscal year ended December 31, 2018. Portions of such definitive proxy statement are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such actual results to differ materially from those set forth in these forward-looking statements are included in Part I, Item 1A "Risk Factors" beginning on page 12.

ITEM 1. BUSINESS

Business Overview

Citrix Systems, Inc., or Citrix, the Company, we or us, is a Delaware corporation incorporated on April 17, 1989. Citrix aims to power a better way to work by delivering the experience, security, and choice people and organizations need to unlock innovation, engage customers, and be productive - anytime, anywhere. It is our vision to deliver a general purpose digital workspace that empowers all users with unified, secure, and reliable access to all apps and content needed to be productive - anytime, anywhere. We help customers reimagine the future of work by delivering unified digital workspace, networking, and analytics solutions that improve employee experience and productivity, while also simplifying IT's ability to adopt and manage complex cloud environments.

Digital transformation is occurring in every industry at a rapid pace. Businesses today are adopting cloud services and software as a service, or SaaS, apps on a broad basis. Many businesses are juggling multiple cloud providers and dozens of new SaaS apps. Yet, we believe many organizations will still be managing legacy infrastructure and on-premises workloads for many years to come. This combination of increased complexity with mobility and new workstyles results in a fragmented user experience, an increase in security risks, and IT teams challenged to properly manage the technology needs of organizations.

As a result of this convergence of cloud, legacy systems, and newer technologies, including artificial intelligence and machine learning, organizations are now seeking to adopt multi-cloud, hybrid-cloud strategies for their IT infrastructure, so that they can provide flexibility to navigate all systems and security to address ever-expanding attack surfaces, all without sacrificing experience for their end users.

As we continue on our journey of cloud transformation as an organization, we are focused on three strategic priorities. First, we are accelerating our move to a subscription-based business model and to offer all of our solutions as cloud services to give organizations flexibility in how they work. Second, we are continuing to unify our portfolio to simplify user and IT experience. Finally, to help meet the expected demands of the future, we are expanding our opportunities with adjacent technologies to help extend value to our customers and meet their needs in the future. In 2018, Citrix made acquisitions in two such areas, acquiring Cedexis for Intelligent Traffic Management to boost the capabilities of our networking solutions, and Sapho to expand Intelligent Workflow capabilities into the Citrix Workspace solutions.

In 2018, we retired all of our point product brand names to simplify our positioning and product naming to make our solutions easier to understand, sell and buy. Citrix simplified its solutions naming to three categories: Digital Workspace, Networking, and Analytics. We moved all products to a functional descriptor naming mechanism, such as Citrix Virtual Apps and Desktops, Citrix ADC, Citrix SD-WAN, Citrix Endpoint Management, etc. We market and license our solutions through multiple channels worldwide, including selling through resellers and direct over the Web. Our partner community comprises thousands of value-added resellers, or VARs known as Citrix Solution Advisors, value-added distributors, or VADs, systems integrators, or SIs, independent software vendors, or ISVs, original equipment manufacturers, or OEMs, and Citrix Service Providers, or CSPs.

Separation of GoTo Business

On January 31, 2017, we completed the separation and subsequent merger of the GoTo family of service offerings of our wholly-owned subsidiary, GetGo, Inc., or GetGo, to LogMeIn, Inc., or LogMeIn, pursuant to a pro rata distribution to our stockholders of 100% of the shares of common stock of GetGo, pursuant to a Reverse Morris Trust, or RMT, transaction. The GoTo family of service offerings consisted of GoToMeeting, GoToWebinar, GoToTraining, GoToMyPC, GoToAssist, Grasshopper and OpenVoice, or collectively the GoTo Business, and had historically been part of our GoTo Business segment. As a result, the consolidated financial statements included in this Annual Report on Form 10-K and related financial information reflect the GoTo Business operations, assets and liabilities, and cash flows as discontinued operations for all periods presented. See Note 3 to our consolidated financial statements included in this Annual Report on Form 10-K for further information.

Solutions and Services

We are enabling the future of work by delivering digital workspace, networking, and analytics solutions that help customers drive innovation and be productive anytime, anywhere. Our unified, contextual and secure digital workspace enables customers to deliver and manage the apps, desktops, data and devices users need. The Citrix networking portfolio, when implemented with digital workspace, ensures consistency of user experience, enables agile delivery of new and merging application types, and facilitates reliability and performance from any resource location. Our customers can realize the full benefits of hybrid and multi-cloud environments while simplifying management and overcoming security challenges. Our solutions and services target customers of all sizes, from small businesses to large global enterprises.

Our secure digital workspace technologies are available as cloud services and can be managed as hybrid and multi-cloud environments. Our cloud-based services, or Citrix Cloud Services, enable our customers to provide a flexible way to manage their applications and data. This cloud-based approach is designed to provide reduced infrastructure, centralized control and SaaS-style updates resulting in lower administration cost and complexity. These cloud services are available as an integrated service or as individual services scaled to meet our customers' business needs.

We offer subscription-based and on-premise subscription software and perpetual licenses for our solutions, along with annual subscriptions for software updates and technical support. Perpetual licenses allow our customers to use the version of software initially purchased into perpetuity, while subscription licenses are limited to a specified period of time. Customer Success Services, which include software maintenance subscriptions, give customers the right to upgrade to new software versions if and when any updates are delivered during the subscription term. Perpetual license software comes primarily in electronic-based forms. We also offer on-premise subscription licenses to service providers through the Citrix Service Provider program, which are invoiced on a monthly basis based on reported license usage. Our services delivered via the cloud are accessed over the Internet for usage during the subscription period. Our hardware appliances come pre-loaded with software for which customers can purchase perpetual licenses and annual support and maintenance.

Digital Workspace (formerly Workspace Services)

Application Virtualization and VDI

Our Application Virtualization and Virtual Desktop Infrastructure, or VDI, solutions give employees the freedom to work from anywhere while cutting IT costs, securely delivering Windows, Linux, Web and SaaS apps, plus full virtual desktops to any device.

- Citrix Virtual Apps and Desktops (formerly XenDesktop) is a fully-integrated, cloud-enabled app and desktop virtualization solution that gives customers the flexibility to remotely deliver desktops and applications - from any cloud, on-premises datacenters or both. Citrix Virtual Apps and Desktops include HDX technologies to give users a high-definition experience - even when using multimedia, real-time voice and video collaboration, USB devices and 3D graphics content - while consuming less bandwidth than competing solutions. Citrix Virtual Apps and Desktops is available in multiple editions designed for different requirements, from simple VDI-only deployments to sophisticated, enterprise-class desktop and application delivery services that can meet the needs of everything from basic call center environments to high-powered graphics workstations. With Citrix Virtual Apps and Desktops Advanced and Premium editions - as well as the cloud service - customers also receive Citrix Virtual Apps to manage and mobilize Windows applications.
- Citrix Virtual Apps (formerly XenApp) is a widely deployed solution that enables Windows and Linux applications to be remotely delivered to Macs, PCs, thin clients and Android/iOS mobile devices from any cloud, on-premises datacenter or both. Citrix Virtual Apps enable people to work better by running applications in the security of the data center or cloud, and using Citrix HDX technologies to deliver a superior user experience to any device, anywhere. Keeping business applications under the centralized control of IT administrators enhances security and reduces the costs of managing applications on every PC. Exclusively available as a cloud service, on-premises or hybrid solution, it allows customers to choose the deployment option that best aligns with their enterprise cloud strategy. In partnership with Microsoft, Citrix Virtual Apps is designed to embrace and extend Microsoft Remote Desktop technology by providing advanced provisioning, performance, monitoring and management functionality. Our joint solution with Microsoft lowers the cost of delivering and maintaining Windows applications for all users in the

enterprise.

Citrix Endpoint Management (formerly Enterprise Mobility Management)

Increasingly, for many employees, mobile devices are their workspaces. Our Citrix Endpoint Management (formerly XenMobile) solutions are designed to increase productivity and security with mobile device management, or MDM, mobile application management, or MAM, mobile content management, or MCM, secure network gateway, secure email, and enterprise-grade mobile apps in one comprehensive solution.

- Citrix Endpoint Management provides unified endpoint management for a secure digital workspace allowing IT to meet mobile device security and compliance requirements for "bring your own device" programs and corporate devices while enabling user productivity. As part of a workspace, Citrix Endpoint Management centralizes the management of mobile devices, traditional desktops, laptops and Internet of Things, or IoT, through a single platform. Citrix Endpoint Management directly integrates with Microsoft EMS/Intune to extend mobility and device management capabilities.

Content Collaboration

Our Content Collaboration offering meets the collaboration and mobility needs of users, with scalable data security requirements for small business to the enterprise.

- Citrix Content Collaboration (formerly ShareFile) is a secure, cloud-based file sharing and storage solution built for mobile business, giving users enterprise-class data services across all corporate and personal mobile devices, while maintaining total IT control. Citrix Content Collaboration protects data throughout the storage and transfer process, using up to 256-bit encryption and SSL or Transport Layer Security, or TLS, encryption protocols for transfer and 256-bit encryption for files at rest on ShareFile servers. Password protection and granular access to folders and files stored with Citrix Content Collaboration ensure that data remains in control of the company. With Citrix Content Collaboration Enterprise, organizations can manage their data on-premises in customer managed StorageZones, select Citrix managed secure cloud options or create a mix of both to meet the needs for data sovereignty, compliance, performance and costs. For businesses that use multiple storage repositories, Citrix Content Collaboration provides unified access to a wide range of cloud-based and on-premises storage repositories, making it simple and easy for employees to find and access their files and documents. Additionally, Citrix Content Collaboration supports e-signature, feedback and approval workflows that help businesses adopt the mobile, digital office.

Citrix Workspace

We offer customers the opportunity to acquire a number of Citrix products through a single comprehensive integrated offering, Citrix Workspace, which includes our Citrix Virtual Apps and Desktops, Citrix Endpoint Management, Citrix Content Collaboration, Citrix Analytics and networking products. Citrix Workspace securely delivers the apps, desktops, branch networking and WAN, enterprise mobility management and data people need for business productivity. We offer one of the industry’s most complete and integrated digital workspaces that is streamlined for IT control and easily accessible for users.

- Citrix Workspace delivers a unified user experience for any app or desktop on any device, including tablets, smartphones, PCs, Macs or thin clients. IT can securely deliver content over low-bandwidth high-latency WANs, highly variable 3G/4G mobile networks or a reliable corporate LAN to improve end-user experience while offering enterprise-grade security to data and applications. Citrix Workspace provides a unified, flexible solution that can streamline device, application and desktop deployment and lifecycle management to increase employee engagement, productivity, and reduce IT costs. Citrix Workspace offers choice of device, cloud and network and can be deployed on-premises, via the cloud or as a hosted service.

Networking

Our Networking products are available via hardware or software-based solutions and allow organizations to deliver apps and data with the security, reliability, and speed trusted by thousands of customers worldwide.

- Citrix ADC (formerly NetScaler ADC) is a software-defined application delivery controller designed to meet the demands of organizations undergoing digital transformation. Citrix ADC enables the adoption of hybrid and multi-cloud application delivery with improved application performance, reliability and security at an optimized price point. Citrix ADC allows customers to obtain detailed application analytics with the value of machine learning. It also optimizes application delivery for cloud native application architectures based on the Kubernetes orchestration platform, and provides service graph analytics for efficient troubleshooting within the microservices environment. Additionally, we extend the platform with best-of-breed web application firewall, or WAF, capabilities

that protect web applications and sites from both known and unknown attacks, which include application-layer and zero-day threats.

- Citrix SD-WAN (formerly NetScaler SD-WAN) increases the security, performance and reliability of applications delivered from the legacy data center, cloud, or SaaS, while delivering additional value for virtualized applications and desktops. The platform combines routing, security, WAN optimization, and path control to simplify implementation and maintenance of the branch network, allowing customers to adopt a hybrid WAN architecture that effectively increases WAN capacity and manageability.

Support

Citrix offers technical support to minimize business downtime for our customers. Several options are available.

- Customer Success Services are offered in support of our perpetual software and our cloud-based services. Customers are given a choice of tiered offerings combining product version upgrades, guidance, enablement, support and proactive monitoring to help customers and partners fully realize their business goals and maximize their Citrix investments. Additionally, customers may upgrade to receive personalized support from a dedicated team led by an assigned account manager. Fees associated with this offering are recognized ratably over the term of the contract.

- Hardware Maintenance is offered in support of our Networking products. Customers are given a choice of tiered offerings including technical support, software upgrades, and replacement of malfunctioning appliances. Dedicated account management is available as an add-on to the program. Fees associated with this offering are recognized ratably over the term of the contract.

Professional Services

We offer a portfolio of professional services to help business partners and customers manage the quality of implementation, operation and support of our solutions. These services are available for additional fees, paid on an annual or transactional basis.

- Citrix Consulting guides the successful implementation of Citrix technologies and solutions with proven methodologies, tools and leading practices. Citrix Consulting focuses on strategic engagements with enterprise customers who have complex, mission-critical, or large-scale Citrix deployments. These engagements are typically fee-based engagements for the most challenging projects in terms of scope and complexity, requiring consultants with project methodology qualifications and Citrix expertise. Citrix Consulting is also responsible for developing best practices which are disseminated to businesses, partners and end users through training and written documentation. Leveraging these best practices enables our integration resellers to provide more complex systems, reach new buyers within existing customer organizations, and provide more sophisticated system proposals to prospective customers.

- Product Training & Certification enables customers and partners to be successful with Citrix and achieve business objectives faster. Authorized Citrix training is available as needed. Traditional or virtual instructor-led training offerings feature Citrix Certified Instructors delivering Citrix-developed courseware in a classroom or remote setting at one of our Citrix Authorized Learning Centers, or CALCs, worldwide. Self-Paced Online offerings provide technically robust course content without an instructor and include hands-on practice via virtual labs. Certifications validate key skills and are available for administrators, engineers, architects and sales professionals.

Customers

We believe that the primary IT buyers involved in decision-making related to our solutions are the following:

- Strategic IT Executives including chief information officers, chief technology officers, chief information security officers and vice presidents of infrastructure, who have responsibility for ensuring that IT services are enablers to business initiatives and are delivered with the best performance, availability, security and cost.
- Desktop Operations Managers who are responsible for managing Windows Desktop environments including corporate help desks.
- IT Infrastructure Managers who are responsible for managing and delivering Windows-based applications.
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Directors of Messaging and Mobility, who are, respectively, responsible for messaging technologies and defining mobile strategies and solutions for securing and managing mobile devices including their content and applications.

- Network Architects who are responsible for delivering Web-based applications who have primary responsibility for the WAN infrastructure for all applications.

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- Server Operations Managers who are responsible for specifying datacenter systems and managing daily operations.
- Small business owners who are responsible for choosing the systems needed to support their business goals, such as SaaS.
- Chief technology officer and engineering department (managers and architects, among others) for telecommunications service providers.
- Line of business and functional executives that determine the need for our cloud and subscription-based offerings at certain enterprises.
- Chief information officer and engineering departments within service providers, using our solutions to deliver desktops and applications as hosted cloud services.

The IT buyers for our solutions include a wide variety of industries including those in financial services, technology, healthcare, education, government and telecom.

Technology Relationships

We have a number of technology relationships in place to accelerate the development of existing and future solutions and our go-to-market initiatives. These relationships include cross-licensing, OEM, resell, joint reference architectures, and other arrangements that result in better solutions for our customers.

Microsoft

For almost 30 years, Citrix and Microsoft have maintained a strategic partnership spanning product development, go-to-market initiatives and partner development, enabling our mutual customers' secure, high-performance delivery of applications, desktops and data to their employees anywhere, anytime on any device. Together, Citrix and Microsoft offer solutions and services that aid and accelerate the transition from on-premises IT infrastructure and practices to emerging hybrid-cloud and multi-cloud delivery models for the full breadth of legacy and modern applications. These solutions and services include the unique ability to deliver Windows 10 desktops hosted within the Microsoft Azure cloud platform, services to deploy apps directly on Azure, Office 365 and Microsoft Teams integrations, and smart tools to simplify the deployment of a new class of integrated workspaces that include legacy Windows apps and a growing array of popular SaaS applications.

In 2018, we announced a new collaboration agreement to provide customers a simplified experience by enabling them to purchase and deploy Citrix-powered digital workspaces and networking solutions directly within Microsoft Azure. We also announced a number of new services and capabilities to assist organizations in the planning and execution of their cloud migrations and accelerate adoption. We also created the Citrix and Microsoft Cloud Alliance program to provide our joint partners with the resources, training and enablement needed to ensure our customers' success.

Google

We continue to build on our five-year partnership with Google through which we bring digital workspace solutions to enterprise customers who are increasingly looking to public and hybrid clouds to address competitive demands and solve business challenges. Our technology integrations provide cloud delivery of Citrix applications and desktops, power management and Citrix ADC with Google Cloud. In 2018, we announced a new Citrix ADC integration that allows developers to take advantage of Google Cloud Platform cloud computing capabilities alongside Citrix load balancing and traffic management features to manage their workloads in a simple, secure and reliable way. We also continue to optimize Citrix Endpoint Management to support Android and Chrome devices, as well as Citrix Workspace App to enable organizations to provision, manage and deliver apps on Chrome devices.

Additional Relationships

We have developed our partner ecosystem to enable infrastructure choice for our Citrix Cloud customers. For public cloud choice, we have relationships with Microsoft Azure, Google Cloud, AWS and Oracle. Moreover, in the past year we announced the Citrix Workspace Appliance program to enable a hybrid cloud choice for on-premises solutions. We are also forging partnerships with SaaS providers to deliver cloud access control and intelligent workspaces. In August of 2018, we announced the availability of the Citrix IT Service Management Connector, an offering jointly developed with ServiceNow that reduces the time involved in application and desktop provisioning, and improves the employee experience.

Delivering Secure and Cost-Effective Hybrid Cloud Solutions with Hewlett Packard Enterprise, Cisco, Lenovo and FlexxibleIT

In delivering choice, we recognize that many enterprise customers have significant investments in on-premises infrastructure that continues to serve their financial investments or have regulatory requirements that require data control and governance. Together with our infrastructure partners like Hewlett Packard Enterprise, or HPE, Cisco, Lenovo and FlexxibleIT, we provide a simple and fast way to deploy hybrid cloud app and desktop virtualization that is scalable and secure. With Citrix Cloud Services, companies can quickly and cost-effectively create a centrally managed, enterprise-class virtualized app and desktop environment in a rack-mounted appliance and manage VDI as-a-service in the cloud with simple subscription-based pricing. Compute, network and storage are pre-integrated with a Citrix Cloud connection in an easy to use hyper converged infrastructure, or HCI, appliance, and the offering is tested and certified as Citrix Ready, which showcases verified products that are trusted to enhance Citrix solutions for mobility, virtualization, networking and cloud platforms.

We continue to invest in our Global System Integrator partnerships with organizations that have multiple offerings in the market with Citrix Digital Workspace and Citrix Networking solutions, including IBM, DXC, and Fujitsu. In addition, our partners continue to expand their focus on the broad range of our solutions. We also continue to provide an easy way for our customers to locate compatible solutions and our channel partners to evaluate and deploy joint offerings through our Citrix Ready program. Active partners, including Amazon Web Services, Cisco, Google, Microsoft and hundreds of other technology companies, use the Citrix Ready Program to learn about and integrate with Citrix technology across our products for workspace, networking, and analytics with the number of verified products available in the Citrix Ready Marketplace growing over the past year.

Research and Development

Our innovation engine continues to advance, and our growth in Citrix Cloud Services has also accelerated our innovation and shortened the time to value for end-users. As of December 31, 2018, we held a worldwide portfolio of 2,725 patents and had an additional 1,126 patent applications pending.

We focus our research and development efforts on developing new cross-portfolio solutions across our Digital Workspaces, Networking and Analytics solutions and services, while continuing to invest in functional improvements to our core market technologies to expand Citrix differentiation and opportunity within each category. We solicit extensive feedback concerning product development from customers, both directly from and indirectly, through our channel distributors and partners. We believe that our global software development teams and our core technologies represent a significant competitive advantage for us. Included in the software development teams are individuals focused on research activities that include prototyping ways to integrate emerging technologies and standards into our product offerings. We incurred research and development expenses of $440.0 million in 2018, $415.8 million in 2017 and $395.4 million in 2016.

Sales, Marketing and Services

We market and license our solutions through multiple channels worldwide, including selling through resellers, direct and over the Web. Our partner community comprises thousands of value-added resellers known as Citrix Solution Advisors, VADs, SIs, ISVs, OEMs, and CSPs. Distribution channels are managed by our worldwide sales and services organization. Partners receive training and certification opportunities to support our portfolio of solutions and services.

We reward our partners that identify new business, and provide sales expertise, services delivery, customer education, technical implementation and support of our portfolio of solutions through our incentive program. We continue to focus on increasing the productivity of our existing partners, while also adding new transacting partners, building capacity through targeted recruitment, introducing programs to increase partner mindshare, limit channel conflict and increase partner loyalty to us.

As we lead with the cloud, we have been cultivating a global base of technology partners within our CSP program. Our CSP program provides subscription-based services in which the CSP partners host software services to their end users. Our CSP partners, consisting of managed service providers, ISVs, Citrix Solution Advisors, hosting providers and telcos, among others, license our desktop, application, networking and enterprise mobility management solutions on a monthly consumption basis. With our software, these partners then create differentiated offers of their own, consisting of cloud-hosted applications and cloud-hosted desktops, which they manage for various customers, ranging from SMBs to enterprise IT. Besides supplying technology, we are actively engaged in assisting these partners in developing their hosted businesses either within their respective data centers or leveraging public cloud infrastructure by supplying business and marketing assistance.

Engagement with SIs and ISVs continues to be a substantial part of our strategic roadmap within large enterprise and government markets. Our integrator partnerships include organizations such as Atos, Accenture, Avanade, Capgemini, Dimension Data, DXC, Fujitsu, IBM Global Services, TCS and Wipro, who all deliver consultancy or global offerings powered by the Citrix Workspace. The ISV program maintains a strong representation across targeted industry verticals including healthcare, financial services and telecommunications. Members in the ISV program include Allscripts, Cerner Corporation, Epic Systems Corporation and McKesson Corporation, among several others. For all of our channels, we regularly take actions to improve the effectiveness of our partner programs and further strengthen our channel relationships through management of

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non-performing partners, recruitment of partners with expertise in selling into new markets and forming additional strategic global and national partnerships.

Our corporate marketing organization provides an integrated global approach to sales and industry event support, digital and social marketing, sales enablement tools and collateral, advertising, direct mail, industry analyst relations and public relations coverage to market our solutions. Our efforts in marketing are focused on generating leads for our sales organization and our indirect channels to acquire net new accounts and expand our presence with existing customers. Our partner development organization actively supports our partners to improve their commitment and capabilities with Citrix solutions. Our customer sales organization consists of field-based sales engineers and corporate sales professionals who work directly with our largest customers, and coordinate integration services provided by our partners. Additional sales personnel, working in central locations and in the field, provide support including recruitment of prospective partners and technical training with respect to our solutions.

In fiscal year 2018, one distributor, the Arrow Group, accounted for 14%, of our total net revenues. In fiscal year 2017 and 2016, two distributors, Ingram Micro and Arrow, accounted for 13% and 12%, respectively, of our total net revenues. Our distributor arrangements with Ingram Micro and Arrow consist of several non-exclusive, independently negotiated agreements with its subsidiaries, each of which covers different countries or regions. See “Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates” and Note 2 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for information regarding our revenue recognition policy.

International revenues (sales outside the United States) accounted for approximately 47.0% of our net revenues for the year ended December 31, 2018, 46.3% of our net revenues for the year ended December 31, 2017 and 46.3% of our net revenues for the year ended December 31, 2016. For detailed information on our international revenues, please refer to Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018.

Segment Revenue

We operate under one reportable segment. For additional information, see Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018.

Operations

For our cloud-based solutions, we use a combination of co-located hosting facilities and increasingly Microsoft Azure and Amazon Web Services as well as other infrastructure-as-a-service providers. For our Networking products, which include Citrix ADC, we use independent contractors to provide a redundant source of manufacture and assembly capabilities. Independent contractors provide us with the flexibility needed to meet our product quality and delivery requirements. We have manufacturing relationships that we enter into in the ordinary course of business, primarily with Flextronics under which we have subcontracted the majority of our hardware manufacturing activity, generally on a purchase order basis. These third-party contract manufacturers also provide final test, warehousing and shipping services. This subcontracting activity extends from prototypes to full production and includes activities such as material procurement, final assembly, test, control, shipment to our customers and repairs. Together with our contract manufacturers, we design, specify and monitor the tests that are required to meet internal and external quality standards. Our contract manufacturers manufacture our products based on forecasted demand for our solutions. Each of the contract manufacturers procures components necessary to assemble the products in our forecast and test the products according to our specifications. We are dual-sourced on our components, however, in some instances, those sources may be located in the same geographic area. Accordingly, if a natural disaster occurred in one of those areas, we may need to seek additional sources. Products are then shipped to our distributors, VARs or end-users. If the products go unsold for specified periods of time, we may incur carrying charges or obsolete material charges for products ordered to meet our forecast or customer orders. In 2018, we did not experience any material difficulties or significant delays in the manufacture and assembly of our products.

We are responsible for all purchasing, inventory, scheduling, order processing and accounting functions related to our operations. For our software products, production, warehousing and shipping are performed by our independent contractors HPE, Ireland and Digital River. Master software, development of user manuals, packaging designs, initial product quality control and testing are primarily performed at our facilities. In some cases, independent contractors also duplicate master software, print documentation and package and assemble products to our specifications.

While it is generally our practice to promptly ship our products upon receipt of properly finalized orders, at any given time, we have confirmed product license orders that have not shipped and are unfulfilled. We refer to those unfulfilled product license orders at the end of a given period as “product and license backlog.” As of December 31, 2018 and 2017, the amount of product and license backlog was not material. We do not believe that backlog, as of any particular date, is a reliable indicator of future performance.

We believe that our fourth quarter revenues and expenses are affected by a number of seasonal factors, including the lapse of many corporations' fiscal year budgets and an increase in amounts paid pursuant to our sales compensation plans due to compensation plan accelerators that are often triggered in the fourth quarter. We believe that these seasonal factors are common within our industry. Such factors historically have resulted in first quarter revenues in any year being lower than the immediately preceding fourth quarter. We expect this trend to continue through the first quarter of 2019. In addition, our European operations generally generate lower revenues in the summer months because of the generally reduced economic activity in Europe during the summer. This seasonal factor also typically results in higher fourth quarter revenues on a sequential basis.

Competition

We sell our solutions in intensely competitive markets. Some of our competitors and potential competitors have significantly greater financial, technical, sales and marketing and other resources than we do. As the markets for our solutions and services continue to develop, additional companies, including those with significant market presence in the computer appliances, software, cloud services and networking industries, could enter the markets in which we compete and further intensify competition. In addition, we believe price competition could become a more significant competitive factor in the future. As a result, we may not be able to maintain our historic prices and margins, which could adversely affect our business, results of operations and financial condition. See “Technology Relationships” and Part I-Item 1A entitled “Risk Factors” included in this Annual Report on Form 10-K for the year ended December 31, 2018.

Digital Workspace

Our Application Virtualization and VDI solutions are based on a proprietary technology platform, the success of which will depend on organizations and customers perceiving technological, operational and security benefits and cost savings associated with adopting desktop and application virtualization solutions. We differentiate our platform from basic virtualization solutions with robust security, higher flexibility and better end user experience to enable IT to deliver Windows and Linux apps and desktops for better business outcomes. Citrix also provides a hardened browser integrated into a web/SaaS access control solution. This enables customers to tightly control how web and SaaS applications are consumed by their users and prevents information leakage. Integration between Secure Web Gateway and Secure Browser Service provides customers with a protective layer between the internet and their secure internal network. Citrix Analytics is a user behavior analytics solution focused on the digital workspace. We also differentiate ourselves from other vendors because we are the only one to offer unified management for all components of the digital workspace that uniquely addresses the needs of on-premises, cloud or hybrid deployments. We also face numerous competitors that provide automation of these processes and approaches, including VMware's Horizon product and the emergence of virtual applications and desktop delivery from public and private cloud services, including Amazon Web Service’s product Amazon WorkSpaces. Also, there continues to be an increase in the number of alternatives to Windows-based applications and Windows operating system powered desktops, particularly in SaaS-delivered applications and mobile devices, such as smartphones and tablets. We believe Citrix Virtual Apps and Desktops give us a competitive advantage by providing customers multiple ways to virtualize and deliver desktops and/or apps with a single integrated virtualization system and delivering a higher performance user experience, more robust security and the flexibility for people to use any device and IT to use any infrastructure, public or private clouds, hyper-converged, traditional servers and storage, or combinations of each.

Our unified endpoint management solution line, Citrix Endpoint Management, competes with companies including AirWatch by VMware, MobileIron, BlackBerry and many other competitors. We believe we differentiate ourselves from these competitors by providing a complete solution, with MDM, MAM and superior core mobile productivity applications, including secure mobile email, calendar, browser, and editing along with integration with Microsoft's EMS mobility management platform and Microsoft Intune. With Citrix Endpoint Management, we also provide robust security and mobile productivity applications that have the deepest and most user friendly integration with Microsoft Office 365. Our apps feature unique workflow integrations designed to make people work better, a significant advantage over competitors that do not focus on the end user experience and either have basic applications or rely on third parties to deliver similar integrations.

We also see competition from competitors that are combining mobile and desktop technologies. We believe our solution, Citrix Workspace, is one of the best solutions available today that can securely deliver a secure digital workspace - with any Windows, Linux, Web, SaaS and native mobile applications, data and virtual desktops - to any device, anywhere. For example, VMware offers the VMware Workspace Suite and more recently introduced VMware Workspace ONE. We expect other vendors to follow suit. We offer market-leading technologies for every component of the Citrix Workspace. Furthermore, we believe that our end-user experience is a competitive edge when compared to the alternative solutions due to the integration, intuitiveness and self-service features of our offerings.

In the content collaboration space, our Citrix Content Collaboration solution's direct competition includes Dropbox, Box, Syncplicity, Egnyte, Inc., BlackBerry's Watchdox, Accellion, and Google, as well as legacy solutions such as traditional file transfer protocol, or FTP. Many of these competitors have strong brand recognition through consumer and free versions of their products. However, we believe Citrix Content Collaboration offers a superior solution for businesses as it is built specifically for the needs of the business. Our solutions are further differentiated through our ability to store data on-premise or in the Cloud, integration into Citrix Workspace, collaboration with external parties at no additional cost, and the ability to create workflows, eSignatures, and custom forms. Integration into Citrix Analytics for a holistic workspace-centric user behavior analysis, and the ability to connect Citrix Content Collaboration to existing storage repositories are additional key differentiators.

Networking

Our Citrix ADC hardware products compete in traditional data-center-deployed application environments against other established competitors, including F5 Networks, Inc., Dell, Inc., KEMP Technologies, Inc., Fortinet Inc., Radware, A10 Networks, Broadcom, Array Networks, Inc., and AVI Networks, Inc. In addition, with new cloud-integrated and software centric use cases, large cloud providers, such as Amazon Web Services and Microsoft Azure, provide customers with competitive ADC solutions built into their public cloud platforms. The ADC segment also includes a number of emerging start-up and open source software-based companies, such as HA PROXY Technologies, LLC. and NGINX, Inc., which generally focus on developers rather than enterprise customers. We continue to enhance Citrix ADC’s feature capability and invest in go-to-market resources to market Citrix ADC to our existing customer base and new potential customers.

Our Citrix SD-WAN product competes against both traditional WAN optimization and infrastructure vendors, such as Riverbed, VMware, Cisco, Silver Peak Systems and Oracle. Additionally, WAN service providers are integrating and reselling SD-WAN products as a part of their service offering from vendors including VMware, Cisco, Riverbed and Versa Networks, Inc. We have partnered with Microsoft to provide SD-WAN capability into Azure as a part of the Azure Virtual WAN.

Technology and Intellectual Property

Innovation is a core Citrix competency. We have developed many innovations that are important enablers of our continued leadership. Our success is dependent upon our solutions, which are based on intellectual property and core proprietary and open source technologies. These technologies include innovations that optimize the end-to-end user experience in virtual desktop and virtual application environments, enhance networking capabilities and deliver a holistic mobile computing experience.

We have been awarded numerous domestic and foreign patents and have numerous pending patent applications in the United States and foreign countries. Our technology is also protected under copyright laws. Additionally, we rely on trade secret protection and confidentiality and proprietary information agreements to protect our proprietary technology. We have established proprietary trademark rights in markets across the globe, and own hundreds of U.S. and foreign trademark registrations and pending registration applications for marks comprised of or incorporating the Citrix name. See our "Research and Development" discussion above and Part I-Item 1A entitled “Risk Factors” included in this Annual Report on Form 10-K for the year ended December 31, 2018.

Available Information

Our Internet address is http://www.citrix.com. We make available, free of charge, on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. The information on our website is not part of this Annual Report on Form 10-K for the year ended December 31, 2018.

Employees

As of December 31, 2018, we had approximately 8,200 employees. We believe our relations with employees are good. In certain countries outside the United States, our relations with employees are governed by labor regulations that provide for specific terms of employment between our company and our employees.

ITEM 1A. RISK FACTORS

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 Annual Report on Form 10-K for the year ended December 31, 2018, and in the documents incorporated by reference into this Annual Report on Form 10-K for the year ended December 31, 2018, that are not historical facts, including, but not limited to, statements concerning our strategy and operational and growth initiatives, our transition to a subscription-based business model, product development and offerings of solutions and services, market branding and positioning, distribution and sales channels, our partners and other strategic or technology relationships, financial information and results of operations for future periods, competition, seasonal factors, stock-based compensation, licensing and subscription renewal programs, international operations and expansion, investment transactions and valuations of investments and derivative instruments, restructuring charges, reinvestment or repatriation of foreign earnings, fluctuations in foreign exchange rates, tax estimates and other tax matters, liquidity, stock repurchases and dividends, our debt, changes in accounting rules or guidance, changes in domestic and foreign economic conditions, acquisitions, litigation matters 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, 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 could vary materially from those stated in any forward-looking statements. The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Annual Report on Form 10-K for the year ended December 31, 2018, in the documents incorporated by reference into this Annual Report on Form 10-K 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.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Our transition from a perpetual licenses to a subscription-based business model and from on-premises software to cloud-delivered services is subject to numerous risks and uncertainties.

The focus of our business model is shifting away from sales of perpetual licenses to sales of subscriptions. Additionally, we expect our customers will increasingly rely on our cloud-delivered services instead of on-premises deployments. This transition may give rise to a number of risks, including the following:

- we may not be able to effectively or efficiently transition our customers from consuming our solutions and services as on premises solutions to cloud-based solutions;
- we may not be able to implement effective go-to-market strategies and train or properly incentivize our sales team and channel partners in order to effectively market our subscription offerings;
- we may be unsuccessful in maintaining our target pricing, adoption and renewal rates;
- we may select solution prices that are not optimal and could negatively affect our sales or earnings;
- we may incur costs at a higher than forecasted rate as we expand our cloud-delivered services thereby decreasing our gross margins;
- we may experience unpredictability in revenue as a result of usage fluctuations within our cloud service provider business;
- we may not be able to meet customer demand or solution requirements for cloud-delivered services;
- we may encounter customer concerns regarding changes to pricing, service availability, and security; and
- our cloud-delivered services are primarily operated through third party data centers, which we do not control and which may be vulnerable to damage, interruption and cyber-related risks.

As we transition our customers from perpetual licenses to subscriptions, we expect an impact on the timing of revenue recognition and a potential reduction of cash flows. Because subscription revenue is typically recognized over time, we may experience a near-term reduction in revenue and revenue growth as more customers move away from perpetual licenses to subscriptions.

Our subscription-based business model and expansion of our cloud-delivered services may also require a considerable investment in resources, including technical, financial, legal, sales, information technology and operation systems. Market acceptance of such offerings is affected by a variety of factors, including but not limited to: security, reliability, scalability, customization, performance, current license terms, customer preference, customer concerns with entrusting a third party to store and manage their data, public concerns regarding privacy and the enactment of restrictive laws or regulations.

In addition, the metrics we use to gauge the status of our business may evolve over the course of the transition as significant trends emerge. If we are unable to successfully establish our subscription-based business model or expand our cloud-delivered services, and navigate our transition in light of the foregoing risks and uncertainties, our business, results of operations and financial condition could be negatively impacted.

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

The markets for our solutions and services are characterized by:

- rapid technological change;
- evolving industry standards;
- fluctuations in customer demand;
- changing customer business models and increasingly sophisticated customer needs; and
- frequent new solution and service introductions and enhancements.

The demand for our solutions and services depends substantially upon the general demand for business-related computer appliances and software, which fluctuates based on numerous factors, including capital spending levels, the spending levels and growth of our current and prospective customers, and general economic conditions. As we continue to grow our subscription service offerings, we must continue to innovate and develop new solutions and features to meet changing customer needs. Our failure to respond quickly to technological developments or customers' increasing technological requirements could lower the demand for any solutions and services and/or make our solutions uncompetitive and obsolete. Moreover, the purchase of our solutions and services is often discretionary and may involve a significant commitment of capital and other resources. We need to continue to develop our skills, tools and capabilities to capitalize on existing and emerging technologies, which will require us to devote significant resources.

U.S. economic forecasts for the information technology, or IT, sector are uncertain and continue to highlight an industry in transition from legacy platforms to mobile, cloud, data analytics and social solutions. If our current and prospective customers cut costs, they may significantly reduce their information technology expenditures. Additionally, if our current and prospective customers shift their IT spending more rapidly towards newer technologies and solutions as mobile, cloud, data analytics and social platforms evolve, the demand for our solutions and services most aligned with legacy platforms (such as our desktop virtualization solutions) could decrease. Fluctuations in the demand for our solutions and services could have a material adverse effect on our business, results of operations and financial condition.

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

We sell our solutions and services in intensely competitive markets. Some of our competitors and potential competitors have significantly greater financial, technical, sales and marketing and other resources than we do. We compete based on our ability to offer to our customers the most current and desired solution and services features. We expect that competition will continue to be intense, and there is a risk that our competitors' products may be less costly, more heavily discounted or free, provide better performance or include additional features when compared to our solutions. Additionally, there is a risk that our solutions may become outdated or that our market share may erode. Further, the announcement of the release, and the actual release, of new solutions incorporating similar features to our solutions could cause our existing and potential customers to postpone or cancel plans to license certain of our existing and future solution and service offerings. Existing or new solutions and services that provide alternatives to our solutions and services could materially impact our ability to compete in these markets. As the markets for our solutions and services, especially those solutions in early stages of development, continue to develop, additional companies, including companies with significant market presence in the computer hardware, software, cloud, networking, mobile, data sharing and related industries, could enter, or increase their footprint in, the markets in which we compete and further intensify competition. In addition, we believe price competition could become a more significant competitive factor in the future. As a result, we may not be able to maintain our historic prices and margins, which could adversely affect our business, results of operations and financial condition.

We expect to continue to face additional competition as new participants enter our markets and as our current competitors seek to increase market share. Further, we may see new and increased competition in different geographic regions. The generally low barriers to entry in certain of our businesses increase the potential for challenges from new industry competitors, whether small and medium sized businesses or larger, more established companies. Smaller companies new to our market may have more flexibility to develop on more agile platforms and have greater ability to adapt their strategies and cost structures, which may give them a competitive advantage with our current or prospective customers. We may also experience increased competition from new types of solutions as the options for Digital Workspace and Networking offerings increase. Further, as our industry evolves and if our company grows, companies with which we have strategic alliances may become competitors in other product areas, or our current competitors may enter into new strategic relationships with new or existing competitors, all of which may further increase the competitive pressures we face.

A significant portion of our revenues historically has come from our Application Virtualization and VDI solutions and our Networking products, and decreases in sales for these solutions could adversely affect our results of operations and financial condition.

A significant portion of our revenues has historically come from our Application Virtualization and VDI solutions and Networking products. We continue to anticipate that sales of these solutions and products and related enhancements and upgrades will constitute a majority of our revenue for the near future. Declines and variability in sales of certain of these solutions and products could occur as a result of:

- new competitive product releases and updates to existing products delivered as on premises solutions, especially cloud-based products;
- industry trend to focus on the secure delivery of applications on mobile devices;
- introduction of new or alternative technologies, products or service offerings by third parties;
- termination or reduction of our product offerings and enhancements;
- potential market saturation;
- failure to enter new markets;
- price and product competition resulting from rapid and frequent technological changes and customer needs;
- general economic conditions;
- complexities and cost in implementation;
- failure to deliver satisfactory technical support;
- dissatisfied customers; or
- lack of commercial success of our technology relationships.

We have experienced increased competition in the Application Virtualization and VDI business from directly competing solutions, alternative products and products on new platforms. For example, Amazon Web Services provides Amazon WorkSpaces and VMware provides Horizon, both of which compete with these offerings among numerous other competitors. Also, there continues to be an increase in the number of alternatives to Windows operating system powered desktops, in particular mobile devices such as smartphones and tablets. Users may increasingly turn to these devices to perform functions that would have been traditionally performed on desktops and laptops, which in turn may reduce the market for our Application Virtualization and VDI solutions. Further, increased use of certain SaaS applications may result in customers relying less on Windows applications. If sales of our Application Virtualization and VDI solutions decline as a result of these or other factors, our revenue would decrease and our results of operations and financial condition would be adversely affected.

Similarly, we have experienced increased competition for our Networking products, including our core Citrix ADC solution. For example, there are an increasing number of alternatives to traditional ADC hardware solutions, enabling our customers to build internal solutions, rely on open source technology or leverage software and cloud-based offerings. In addition, our Networking business generates a substantial portion of its revenues from a limited number of customers with uneven and declining purchasing patterns. As a result, the potential for declining sales within our Networking business may not be offset by gains in other areas of our Networking and other businesses, which could result in our operations and financial condition being adversely affected.

Our growth prospects depend on increasing the number of users within our customer base, as well as attracting new customers.

We believe that our penetration into our existing customer base is limited and that we have an opportunity to expand the pool of the available users of our solutions. This represents a longer-term opportunity to both expand within our installed base and to attract new customers. There are no guarantees, however, that we will be able to capitalize on this opportunity if we do not innovate and expand the set of potential users, or otherwise attract customer interest and adoption. If we are unable to expand the number of users within our customer base or unable to attract new customers, our revenue would decrease and our results of operations and financial condition would be adversely affected.

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. 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 solutions 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. We have experienced significant changes in our senior management team over the past several years, including the appointments of David J. Henshall as our President and Chief Executive Officer in 2017 and Andrew Del Matto as our Executive Vice President and Chief Financial Officer in 2018. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution. 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.

Industry volatility and consolidation may result in increased competition.

The industry has been volatile and there has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue, especially in light of the increased availability of domestic cash resulting from the Tax Cuts and Jobs Act. In addition, we expect companies will attempt to strengthen or hold their market positions in an evolving and volatile industry. For example, some of our competitors have made acquisitions or entered into partnerships or other strategic relationships to offer a more comprehensive solution than they had previously offered. Further, some companies are making plans or may be under pressure by stockholders to divest businesses and such divestitures may result in stronger competition. Additionally, as IT companies attempt to strengthen or maintain their market positions in the evolving digital workspace services, networking and data sharing markets, these companies continue to seek to deliver comprehensive IT solutions to end users and combine enterprise-level hardware and software solutions that may compete with our Digital Workspace and Networking solutions. These consolidators or potential consolidators may have significantly greater financial, technical and other resources and brand loyalty than we do, and may be better positioned to acquire and offer complementary solutions and services. The companies resulting from these possible combinations may create more compelling solution and service offerings and be able to offer greater pricing flexibility or sales and marketing support for such offerings than we can. These heightened competitive pressures could result in a loss of customers or a reduction in our revenues or revenue growth rates, all of which could adversely affect our business, results of operations and financial condition.

Actual or perceived security vulnerabilities in our solutions and services or cyberattacks on our networks could have a material adverse impact on our business, results of operations and financial condition.

Use of our solutions and services may involve the transmission and/or storage of data, including in certain instances customers' business, financial and personal data. Thus, maintaining the security of our solutions, computer networks and data storage resources is important as security breaches could result in solution or service vulnerabilities and loss of and/or unauthorized access to confidential information. We aim to engineer secure solutions and services, enhance security and reliability features in our solutions and services, deploy security updates to address security vulnerabilities and seek to respond to known security incidents in sufficient time to minimize any potential adverse impact. We have in the past, and may in the future, discover vulnerabilities in our solutions or underlying technology, which could expose our operations and our customers to risk until such vulnerabilities are addressed. In addition, to the extent we are diverting our resources to address and mitigate these vulnerabilities, it may hinder our ability to deliver and support our solutions and customers in a timely manner.

As a more general matter, unauthorized parties may attempt to misappropriate or compromise our confidential information or that of third parties, create system disruptions, product or service vulnerabilities or cause shutdowns. These perpetrators of cyberattacks also may be able to develop and deploy viruses, worms, malware and other malicious software programs that directly or indirectly attack our products, services or infrastructure (including third party cloud service providers -- such as Microsoft Azure and Amazon Web Services and Google Cloud Platform - upon which we rely). Because techniques used by these perpetrators to sabotage or obtain unauthorized access to our systems change frequently and generally are not recognized until long after being launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Despite our efforts to build secure services, we can make no assurance that we will be able to detect, prevent, timely and adequately address, or mitigate the negative effects of cyberattacks or other security breaches. For example, in late 2018, our file sync and sharing service was the target of a “credential stuffing” attack, in which we believe that malicious third-party actors used credentials obtained from breaches unrelated to any Citrix service to attempt to gain access to individual Citrix Content Collaboration customer accounts. To date, we believe the event had limited impact on a small percentage of Citrix Content Collaboration customers; however, these types of attacks have the potential to materially and adversely impact our customers and, as a result, our results of operations and financial condition.

A breach of our security measures as a result of third-party action, malware, employee error, malfeasance or otherwise could result in (among other consequences):

- loss or destruction of customer data;
- interruption in the delivery of our cloud services;
- negative publicity and harm to our reputation or brand, which could lead some customers to seek to cancel subscriptions, stop using certain of our solutions or services, reduce or delay future purchases of our solutions or services, or use competing solutions or services;
- individual and/or class action lawsuits, which could result in financial judgments against us or the payment of settlement amounts, which would cause us to incur legal fees and costs;
- regulatory enforcement action under the General Data Protection Regulation or other legal authority, which could result in significant fines and/or penalties or other sanctions and which would cause us to incur legal fees and costs; and/or
- in the event that we or one of our customers were the victim of a cyberattack or other security breach, additional costs associated with responding to such breach, such as investigative and remediation costs, and the costs of providing data owners or others with notice of the breach, legal fees, costs of any additional fraud detection activities required by such customers' credit card issuers, and costs incurred by credit card issuers associated with the compromise and additional monitoring of systems for further fraudulent activity.

Any of these actions could materially adversely impact our business, results of operations and financial condition.

Regulation of privacy and data security may adversely affect sales of our solutions and result in increased compliance costs.

We believe increased regulation is likely with respect to the solicitation, collection, processing or use of personal, financial and consumer information as regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection, privacy and data security. This includes the California Consumer Privacy Act, which is set to come into effect in 2020, and the Global Data Protection Regulation, or GDPR. The GDPR is a new European Union-wide legal framework to govern data collection, use and sharing and related consumer privacy rights, which became effective in May 2018. The GDPR includes significant penalties for non-compliance. In addition, the interpretation and application of consumer and data protection laws and industry standards in the United States, Europe and elsewhere are often uncertain and in flux. The application of existing laws to cloud-based solutions is particularly uncertain and cloud-based solutions may be subject to further regulation, the impact of which cannot be fully understood at this time. Moreover, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data and privacy practices. For example, although the GDPR will apply across the European Union without a need for local implementing legislation, local data protection authorities will still have the ability to interpret the GDPR through so-called opening clauses, which permit region-specific data protection legislation and have the potential to create inconsistencies on a country-by-country basis. In addition to the possibility of fines, application of these laws in a manner inconsistent with our data and privacy practices could result in an order requiring that we change our data and privacy practices, which could have an adverse effect on our business and results of operations. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. Also, any new regulation, or interpretation of existing regulation, imposing greater fees or taxes or restricting information exchange over the Web, could result in a decline in the use and adversely affect sales of our solutions and our results of operations. Finally, as a technology vendor, our customers will expect that we can demonstrate compliance with current data privacy and security regulation, and our inability to do so may adversely impact sales of our solutions and services to certain customers, particularly customers in highly-regulated industries.

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

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

Certain of our offerings have sales cycles which are long and/or unpredictable which could cause significant variability and unpredictability in our revenue and operating results for any particular period.
Generally, a substantial portion of our large and medium-sized customers implement our Digital Workspace solutions on a departmental or enterprise-wide basis. We have a long sales cycle for these departmental or enterprise-wide sales because:

- our sales force generally needs to explain and demonstrate the benefits of a large-scale deployment of our solution to potential and existing customers prior to sale;
- our service personnel typically spend a significant amount of time assisting potential customers in their testing and evaluation of our solutions and services;
- our customers are typically large and medium size organizations that carefully research their technology needs and the many potential projects prior to making capital expenditures for software infrastructure; and
- before making a purchase, our potential customers usually must get approvals from various levels of decision makers within their organizations, and this process can be lengthy.

Our long sales cycle for these solutions makes it difficult to predict when these sales will occur, and we may not be able to sustain these sales on a predictable basis. In addition, the long sales cycle for these solutions makes it difficult to predict the quarter in which sales will occur. Delays in sales could cause significant variability in our revenue and operating results for any particular period, and large projects with significant IT components may fail to meet our customers' business requirements or be canceled before delivery, which likewise could adversely affect our revenue and operating results for any particular period.
Overall, the timing of our revenue is difficult to predict. Our quarterly sales have historically reflected an uneven pattern in which a disproportionate percentage of a quarter's total sales occur in the last month, weeks and days of each quarter. In addition, our business is subject to seasonal fluctuations and such fluctuations are generally most significant in our fourth fiscal quarter, which we believe is due to the impact on revenue from the availability (or lack thereof) in our customers' fiscal year budgets and an increase in expenses resulting from amounts paid pursuant to our sales compensation plans as performance milestones are often triggered in the fourth quarter. We believe that these seasonal factors are common within our industry. In addition, our European operations generally generate lower revenues in the summer months because of the generally reduced economic activity in Europe during the summer.
Our success depends on our ability to attract and retain and further access large enterprise customers.
We must retain and continue to expand our ability to reach and access large enterprise customers by adding effective value-added distributors, or VADs, system integrators, or SIs, and other partners, as well as expanding our direct sales teams and consulting services. Our inability to attract and retain large enterprise customers could have a material adverse effect on our business, results of operations and financial condition. Large enterprise customers usually request special pricing and purchase of multiple years of subscription and maintenance up-front and generally have longer sales cycles. By allowing these customers to purchase multiple years of subscription or maintenance up-front and by granting special pricing, such as bundled pricing or discounts, to these large customers, we may have to defer recognition of some or all of the revenue from such sales. This deferral, compounded with the longer sales cycles, could reduce our revenues and operating profits for a given reporting period and make revenues difficult to predict.
Changes to our licensing or subscription renewal programs, or bundling of our solutions, could negatively impact the timing of our recognition of revenue.
We continually re-evaluate our licensing programs and subscription renewal programs, including specific license models, delivery methods, and terms and conditions, to market our current and future solutions and services. We could implement new licensing programs and subscription renewal programs, including promotional trade-up programs or offering specified enhancements to our current and future solution and service lines. Such changes could result in deferring revenue recognition until the specified enhancement is delivered or at the end of the contract term as opposed to upon the initial shipment or licensing of our software solution. We could implement different licensing models in certain circumstances, for which we would recognize licensing fees over a longer period, including offering additional solutions in a SaaS model. Changes to our licensing programs and subscription renewal programs, including the timing of the release of enhancements, upgrades, maintenance releases, the term of the contract, discounts, promotions, auto-renewals and other factors, could impact the timing of the recognition of revenue for our

solutions, related enhancements and services and could adversely affect our operating results and financial condition. Further, companies that we acquire may operate with different cost and margin structures, which could further cause fluctuations in our operating results and adversely affect our operating margins. Moreover, if our quarterly financial results or our predictions of future financial results fail to meet the expectations of securities analysts and investors, our stock price could be negatively affected.

Sales and renewals of our support solutions constitute a large portion of our deferred revenue.

We anticipate that sales and renewals of our support solutions will continue to constitute a substantial portion of our deferred revenue. Our ability to continue to generate both recognized and deferred revenue from our support solutions will depend on our customers continuing to perceive value in automatic delivery of our software upgrades and enhancements. Additionally, a decrease in demand for our support solutions could occur as a result of a decrease in demand for our Digital Workspace and Networking solutions. If our customers do not continue to purchase our support solutions, our deferred revenue would decrease significantly and our results of operations and financial condition would be adversely affected.

Adverse changes in general global economic conditions could adversely affect our operating results.

As a globally operated company, we are subject to the risks arising from adverse changes in global economic and market conditions. Economic uncertainty and volatility in our significant geographic locations, including the potential impact resulting from "Brexit", a US-China trade war or other international trade disputes, may adversely affect sales of our solutions and services and may result in longer sales cycles, slower adoption of technologies and increased price competition. For example, if the U.S. or the European Union countries were to experience an economic downturn, these adverse economic conditions could contribute to a decline in our customers’ spending on our solutions and services. Additionally, in response to economic uncertainty, we expect that many governmental organizations that are current or prospective customers for our solutions and services would cutback spending significantly, which would reduce the amount of government spending on IT and demand for our solutions and services from government organizations. Adverse economic conditions also may negatively impact our ability to obtain payment for outstanding debts owed to us by our customers or other parties with whom we do business.

Our international presence subjects us to additional risks that could harm our business.

We conduct significant sales and customer support, development and engineering operations in countries outside of the United States. During the year ended December 31, 2018, we derived 47.0% of our revenues from sales outside the United States. Potential growth and profitability could require us to further expand our international operations. To successfully maintain and expand international sales, we may need to establish additional foreign operations, hire additional personnel and recruit additional international resellers. Our international operations are subject to a variety of risks, which could adversely affect the results of our international operations. These risks include:

- compliance with foreign regulatory and market requirements;
- variability of foreign economic, political, labor conditions and global policy uncertainty;
- changing restrictions imposed by regulatory requirements, tariffs or other trade barriers or by U.S. export laws;
- regional data privacy laws that apply to the transmission of our customers’ data across international borders;
- health or similar issues such as pandemic or epidemic;
- difficulties in staffing and managing international operations;
- longer accounts receivable payment cycles;
- potentially adverse tax consequences;
- difficulties in enforcing and protecting intellectual property rights;
- compliance with the Foreign Corrupt Practices Act, including potential violations by acts of agents or other intermediaries;
- burdens of complying with a wide variety of foreign laws; and
- as we generate cash flow in non-U.S. jurisdictions, if required, we may experience difficulty transferring such funds to the U.S. in a tax efficient manner.

We are also monitoring developments related to the decision by the British government to leave the European Union (EU) following a referendum in June 2016 in which voters in the United Kingdom approved an exit from the EU (often referred to as “Brexit”), which could have implications for our business. In March 2017, the United Kingdom began the official process to leave the EU by April 2019. There remains considerable uncertainty around the withdrawal. Failure to obtain parliamentary approval of any negotiated withdrawal agreement would mean that the United Kingdom would leave the European Union on March 29, 2019, potentially with no agreement. Brexit could lead to economic and legal uncertainty, including significant volatility in global stock markets and currency exchange rates, and increasingly divergent laws, regulations and licensing requirements applicable to us as the United Kingdom determines which EU laws to replace or replicate. Any of these effects of Brexit, among others, could adversely affect our operations and financial results.

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

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

We rely significantly on independent distributors and resellers to market and distribute our solutions and services. Our distributors generally sell through resellers. Our distributor and reseller base is relatively concentrated. We maintain and periodically revise our sales incentive programs for our independent distributors and resellers, and such program revisions may adversely impact our results of operations. Changes to our sales incentive programs can result from a number of factors, including our transition to a subscription-based business model. Our competitors may in some cases be effective in providing incentives to current or potential distributors and resellers to favor their products or to prevent or reduce sales of our solutions. The loss of or reduction in sales to our distributors or resellers could materially reduce our revenues. Further, we could maintain individually significant accounts receivable balances with certain distributors. The financial condition of our distributors could deteriorate and distributors could significantly delay or default on their payment obligations. Any significant delays, defaults or terminations could have a material adverse effect on our business, results of operations and financial condition.

We are in the process of diversifying our base of channel relationships by adding and training more channel partners with abilities to reach larger enterprise customers and additional mid-market customers and to sell our newer solutions and services. We are also in the process of building relationships with new types of channel partners, such as systems integrators and service providers. In addition to this diversification of our partner base, we will need to maintain a healthy mix of channel members who service smaller customers. We may need to add and remove distribution partners to maintain customer satisfaction, support a steady adoption rate of our solutions, and align with our transition to a subscription-based business model, which could increase our operating expenses, credit risk, and adversely impact our go-to-market effectiveness. We also bear the risk that our existing or newer channel partners will fail to comply with US or international anti-corruption or anti-competition laws, in which case we might be fined or otherwise penalized as a result of the agency relationship with such partners. Through our Citrix Partner Network and other programs, we are currently investing, and intend to continue to invest, significant resources to develop these channels, which could adversely impact our results of operations if such channels do not result in increased revenues.

Our Networking business could suffer if there are any interruptions or delays in the supply of hardware or hardware components from our third-party sources.

We rely on a concentrated number of third-party suppliers, who provide hardware or hardware components for our Networking products, and contract manufacturers. If we are required to change suppliers, there could be a delay in the supply of our hardware or hardware components and our ability to meet the demands of our customers could be adversely affected, which could cause the loss of Networking sales and existing or potential customers and delayed revenue recognition and adversely affect our results of operations. While we have not, to date, experienced any material difficulties or delays in the manufacture and assembly of our Networking products, our suppliers may encounter problems during manufacturing due to a variety of reasons, including failure to follow specific protocols and procedures, failure to comply with applicable regulations, or the need to implement costly or time-consuming protocols to comply with applicable regulations (including regulations related to conflict minerals), equipment malfunction, natural disasters and environmental factors, any of which could delay or impede their ability to meet our demand.

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.

RISKS RELATED TO ACQUISITIONS, STRATEGIC RELATIONSHIPS AND DIVESTITURES

Acquisitions and divestitures present many risks, and we may not realize the financial and strategic goals we anticipate.

We have in the past addressed, and may continue to address, the development of new solutions and services and enhancements to existing solutions and services through acquisitions of other companies, product lines and/or technologies. However, acquisitions, including those of high-technology companies, are inherently risky. We cannot provide any assurance that any of our acquisitions or future acquisitions will be successful in helping us reach our financial and strategic goals. The risks we commonly encounter in undertaking, managing and integrating acquisitions are:

- an uncertain revenue and earnings stream from the acquired company, which could dilute our earnings;
- difficulties and delays integrating the personnel, operations, technologies, solutions and systems of the acquired companies;
- undetected errors or unauthorized use of a third-party’s code in solutions of the acquired companies;
- our ongoing business may be disrupted and our management’s attention may be diverted by acquisition, transition or integration activities;
- challenges with implementing adequate and appropriate controls, procedures and policies in the acquired business;
- difficulties managing or integrating an acquired company’s technologies or lines of business;
- potential difficulties in completing projects associated with purchased in-process research and development;
- entry into markets in which we have no or limited direct prior experience and where competitors have stronger market positions and which are highly competitive;
- the potential loss of key employees of the acquired company;
- potential difficulties integrating the acquired solutions and services into our sales channel;
- assuming pre-existing contractual relationships of an acquired company that we would not have otherwise entered into, the termination or modification of which may be costly or disruptive to our business;
- being subject to unfavorable revenue recognition or other accounting treatment as a result of an acquired company’s practices;
- potential difficulties securing financing necessary to consummate substantial acquisitions;
- issuing shares of our stock, which may be dilutive to our stockholders; and
- intellectual property claims or disputes.

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

Any future divestitures we make may also involve risks and uncertainties. Any such divestitures could result in disruption to other parts of our business, potential loss of employees or customers, exposure to unanticipated liabilities or result in ongoing obligations and liabilities to us following any such divestiture. For example, in connection with a divestiture, we may enter into transition services agreements or other strategic relationships, including long-term services arrangements, or agree to provide certain indemnities to the purchaser in any such transaction, which may result in additional expense. Further, if we do not realize the expected benefits or synergies of such transactions, our operating results and financial conditions could be adversely affected.

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

We have a significant amount of goodwill and other intangible assets, such as product related intangible assets, from our acquisitions. We do not amortize goodwill and intangible assets that are deemed to have indefinite lives. However, we do amortize certain product related technologies, trademarks, patents and other intangibles and we periodically evaluate them for impairment. We review goodwill for impairment annually, or sooner if events or changes in circumstances indicate that the carrying amount could exceed fair value, at the reporting unit level, which for us also represents our operating segments. Significant judgments are required to estimate the fair value of our goodwill and intangible assets, including estimating future cash flows, determining appropriate discount rates, estimating the applicable tax rates, foreign exchange rates and interest rates, projecting the future industry trends and market conditions, and making other assumptions. Although we believe the assumptions, judgments and estimates we have made have been reasonable and appropriate, different assumptions, judgments and estimates, materially affect our results of operations. Changes in these estimates and assumptions, including changes in our reporting structure, could materially affect our determinations of fair value. In addition, due to uncertain market conditions and potential changes in our strategy and product portfolio, it is possible that the forecasts we use to support our goodwill and other intangible assets could change in the future, which could result in non-cash charges that would adversely affect our results of operations and financial condition. Also, we may make divestitures of businesses in the future. If we determine that any of the intangible assets associated with our acquisitions is impaired or goodwill is impaired, then we would be required to reduce the value of those assets or to write them off completely by taking a charge to current earnings. If we are required to write down or write off all or a portion of those assets, or if financial analysts or investors believe we may need to take such action in the future, our stock price and operating results could be materially and adversely affected.

Our inability to maintain or develop our strategic and technology relationships could adversely affect our business.

We have several strategic and technology relationships with large and complex organizations, such as Microsoft and Google, and other companies with which we work to offer complementary solutions and services. We depend on the companies with which we have strategic relationships to successfully test our solutions, to incorporate our technology into their products and to market and sell those solutions. There can be no assurance we will realize the expected benefits from these strategic relationships or that they will continue in the future. If successful, these relationships may be mutually beneficial and result in industry growth. However, such relationships carry an element of risk because, in most cases, we must compete in some business areas with a company with which we have a strategic relationship and, at the same time, cooperate with that company in other business areas. Also, if these companies fail to perform or if these relationships fail to materialize as expected, we could suffer delays in product development, reduced sales or other operational difficulties and our business, results of operations and financial condition could be materially adversely affected.

RISKS RELATED TO INTELLECTUAL PROPERTY AND BRAND RECOGNITION

Our efforts to protect our intellectual property may not be successful, which could materially and adversely affect our business.

We rely primarily on a combination of copyright, trademark, patent and trade secret laws, confidentiality procedures and contractual provisions to protect our source code, innovations and other intellectual property, all of which offer only limited protection. The loss of any material trade secret, trademark, tradename, patent or copyright could have a material adverse effect on our business. Despite our precautions, it could be possible for unauthorized third parties to infringe our intellectual property rights or misappropriate, copy, disclose or reverse engineer our proprietary information, including certain portions of our solutions or to otherwise obtain and use our proprietary source code. We have sought to protect our intellectual property through offensive litigation, which may be costly and unsuccessful and/or subject us to successful counterclaims or challenges to our intellectual property rights. In addition, our ability to monitor and control such misappropriation or infringement is uncertain, particularly in countries outside of the United States. If we cannot protect our intellectual property from infringement and our proprietary source code against unauthorized copying, disclosure or use, we could lose market share, including as a result of unauthorized third parties' development of solutions and technologies similar to or better than ours.

The scope of our patent protection may be affected by changes in legal precedent and patent office interpretation of these precedents. Further, any patents owned by us could be invalidated, circumvented or challenged. Any of our pending or future patent applications, whether or not being currently challenged, may not be issued with the scope of protection we seek, if at all; and if issued, may not provide any meaningful protection or competitive advantage.

Our ability to protect our proprietary rights could be affected by differences in international law and the enforceability of licenses. The laws of some foreign countries do not protect our intellectual property to the same extent as do the laws of the United States and Canada. For example, we derive a significant portion of our sales from licensing our solutions under "click-to-accept" license agreements that are not signed by licensees and through electronic enterprise customer licensing arrangements that are delivered electronically, all of which could be unenforceable under the laws of many foreign jurisdictions in which we license our solutions. Moreover, with respect to the various confidentiality, license or other agreements we utilize with third parties related to their use of our solutions and technologies, there is no guarantee that such parties will abide by the terms of such agreements.

Our solutions and services, including solutions obtained through acquisitions, could infringe third-party intellectual property rights, which could result in material litigation costs.

We are routinely subject to patent infringement claims and may in the future be subject to an increased number of claims, including claims alleging the unauthorized use of a third-party's code in our solutions. This may occur for a variety of reasons, including:

- the expansion of our product lines through product development and acquisitions;
- the volume of patent infringement litigation commenced by non-practicing entities;
-

an increase in the number of competitors in our industry segments and the resulting increase in the number of related solutions and services and the overlap in the functionality of those solutions and services;

- an increase in the number of our competitors and third parties that use their own intellectual property rights to limit our freedom to operate and exploit our solutions, or to otherwise block us from taking full advantage of our markets;
- our reliance on the technology of others and, therefore, the requirement to obtain intellectual property licenses from third parties in order for us to commercialize our solutions or services, which licenses we may not be able to obtain or continue to obtain from these third parties on reasonable terms; and
- the unauthorized or improperly licensed use of third-party code in our solutions.

Further, responding to any infringement claim, regardless of its validity or merit, could result in costly litigation. Further, intellectual property litigation could compel us to do one or more of the following:

- pay damages (including the potential for treble damages), license fees or royalties (including royalties for past periods) to the party claiming infringement;
- cease selling solutions or services that use the challenged intellectual property;
- obtain a license from the owner of the asserted intellectual property to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or
- redesign the challenged technology, which could be time consuming and costly, or not be accomplished.

If we were compelled to take any of these actions, our business, results of operations or financial condition may be adversely impacted.

Our use of “open source” software could negatively impact our ability to sell our solutions and subject us to possible litigation.

The solutions or technologies acquired, licensed or developed by us may incorporate so-called “open source” software, and we may incorporate open source software into other solutions in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses, including, for example, the GNU General Public License, the GNU Lesser General Public License, “Apache-style” licenses, “Berkeley Software Distribution,” “BSD-style” licenses, and other open source licenses. Even though we attempt to monitor our use of open source software in an effort to avoid subjecting our solutions to conditions we do not intend, it is possible that not all instances of our open source code usage are properly reviewed. Further, although we believe that we have complied with our obligations under the various applicable licenses for open source software that we use such that we have not triggered any of these conditions, there is little or no legal precedent governing the interpretation or enforcement of many of the terms of these types of licenses. If an author or other third party that distributes open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations. If our defenses were not successful, we could be subject to significant damages, enjoined from the distribution of our solutions that contained open source software, and required to comply with the terms of the applicable license, which could disrupt the distribution and sale of some of our solutions. In addition, if we combine our proprietary software with open source software in an unintended manner, under some open source licenses we could be required to publicly release the source code of our proprietary software, offer our solutions that use the open source software for no cost, make available source code for modifications or derivative works we create based upon incorporating or using the open source software, and/or license such modifications or derivative works under the terms of the particular open source license.

In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide technology support, maintenance, warranties or assurance of title or controls on the origin of the software.

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

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

- undetected errors or unauthorized use of another person’s code in the third party’s software;
- disagreement over the scope of the license and other key terms, such as royalties payable and indemnification protection;
- infringement actions brought by third-parties;
- the creation of solutions by third parties that directly compete with our solutions; and
- termination or expiration of the license.

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

Our business depends on maintaining and protecting the strength of our collection of brands.

The Citrix solution and service brands that we have developed have significantly contributed to the success of our business. Maintaining and enhancing the Citrix solution and service brands is critical to expanding our base of customers and partners. We may be subject to reputational risks and our brand loyalty may decline if others adopt the same or confusingly similar marks in an effort to misappropriate and profit on our brand name and do not provide the same level of quality as is delivered by our solutions and services. Also, others may rely on false comparative advertising and customers or potential customers could be influenced by false advertising. Additionally, we may be unable to use some of our brands in certain countries or unable to secure trademark rights in certain jurisdictions where we do business. In order to police, maintain, enhance and protect our brands, we may be required to make substantial investments that may not be successful. If we fail to police, maintain, enhance and protect the Citrix brands, if we incur excessive expenses in this effort or if customers or potential customers are confused by others' trademarks, our business, operating results, and financial condition may be materially and adversely affected.

RISKS RELATED TO OUR COMMON STOCK, OUR DEBT AND EXTERNAL FACTORS

Servicing our debt will require a significant amount of cash, which could adversely affect our business, financial condition and results of operations. We may not have sufficient cash flow from our business to make payments on our debt, settle conversions of our Convertible Notes or repurchase our Convertible Notes or 2027 Notes upon certain events.

We have aggregate indebtedness of approximately $1.90 billion that we have incurred in connection with the issuance of our unsecured senior notes due December 1, 2027, or the 2027 Notes, and our 0.500% Convertible Notes due April 15, 2019, or the Convertible Notes, and under our Credit Agreement, and we may incur additional indebtedness in the future. Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, depends on our future performance, which is subject to general economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt and to make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, reducing capital expenditures, restructuring debt or obtaining additional equity or debt financing on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness, as applicable, will depend on the capital markets and our financial condition at such time. We may not be able to sell assets, restructure our indebtedness or obtain additional equity or debt financing on terms that are acceptable to us or at all, which could result in a default on our debt obligations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates" and Note 13 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for information regarding our 2027 Notes, our Convertible Notes and our Credit Facility.

In addition, holders of our Convertible Notes have the right to require us to repurchase their Convertible Notes upon the occurrence of a fundamental change at a fundamental change repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest, if any. If a change in control repurchase event occurs with respect to the 2027 Notes, we will be required, subject to certain exceptions, to offer to repurchase the 2027 Notes at a repurchase price equal to 101% of the principal amount of the 2027 Notes repurchased, plus accrued and unpaid interest, if any. Further, upon conversion of the Convertible Notes, we are required to make cash payments for each $1,000 in principal amount of Convertible Notes converted of at least the lesser of $1,000 and the sum of the daily conversion values thereunder. In such events, we may not have enough available cash or be able to obtain financing to fund the required repurchase of the Convertible Notes or 2027 Notes or make cash payments upon conversion of the Convertible Notes, or making such payments could adversely affect our liquidity. As of October 15, 2018, we had received conversion notices from noteholders with respect to $273.0 million in aggregate principal amount of Convertible Notes requesting conversion. In accordance with the terms of the Convertible Notes, in the fourth quarter of 2018 we made cash payments of this aggregate principal amount and delivered 1.3 million newly issued shares of our common stock in respect of the remainder of our conversion obligation in excess of the aggregate principal amount of the Convertible Notes being redeemed, in full satisfaction of such converted notes. Commencing on October 15, 2018 until the close of business on the second scheduled trading day immediately preceding the April 15, 2019 maturity date, holders of the Convertible Notes may convert their notes in their discretion. In addition, our ability to repurchase the Convertible Notes or 2027 Notes or to pay cash upon conversion

of the Convertible Notes may be limited by law, by regulatory authority or by agreements governing our other indebtedness.
Further, we are required to comply with the covenants set forth in the indenture governing the Convertible Notes, the indenture governing the 2027 Notes and the Credit Agreement. In particular, the Credit Agreement requires us to maintain certain leverage and interest ratios and contains various 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 or incur subsidiary indebtedness. The indenture governing our 2027 Notes contains covenants limiting our ability and the ability of our subsidiaries to create certain liens, enter into certain sale and leaseback transactions, and consolidate or merge with, or sell, assign, convey, lease, transfer or otherwise dispose of all or substantially all of our assets, taken as a whole, to, another

person. If we fail to comply with these covenants or any other provision of the agreements governing our indebtedness and do not obtain a waiver from the lenders or noteholders, then, subject to applicable cure periods, our outstanding indebtedness may be declared immediately due and payable. Additionally, a default under an indenture or the Credit Agreement could lead to a default under the other agreements governing our current and any future indebtedness. If the repayment of the related indebtedness were to be accelerated, we may not have enough available cash or be able to obtain financing to repay the indebtedness.

Our indebtedness, combined with our other financial obligations and contractual commitments, could have other important consequences. For example, it could:

- make us more vulnerable to adverse changes in general U.S. and worldwide economic, industry and competitive conditions and adverse changes in government regulation;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry;
- place us at a disadvantage compared to our competitors who have less debt; and
- limit our ability to borrow additional amounts to fund acquisitions, for working capital and for other general corporate purposes.

Any of these factors could materially and adversely affect our business, financial condition and results of operations. In addition, if we incur additional indebtedness, the risks related to our business and our ability to service or repay our indebtedness would increase. Also, changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities, as well as the potential costs associated with any potential refinancing of our indebtedness. Downgrades in our credit rating could also restrict our ability to obtain additional financing in the future and could affect the terms of any such financing.

The accounting method for convertible debt securities that may be settled in cash, such as the Convertible Notes, could have a material effect on our reported financial results.

Under FASB Accounting Standards Codification 470-20, Debt with Conversion and Other Options, or ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Convertible Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. The effect of ASC 470-20 on the accounting for the Convertible Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders’ equity on our consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Convertible Notes, which will result in non-cash charges to interest expense in our consolidated statement of income. As a result, we will report lower net income in our financial results as reported in accordance with U.S. GAAP because ASC 470-20 will require interest to include both the current period’s amortization of the debt discount and the instrument’s coupon interest, which could adversely affect our reported or future financial results.

In addition, under certain circumstances, convertible debt instruments (such as the Convertible Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Convertible Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Convertible Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Convertible Notes, then our diluted earnings per share would be adversely affected. Moreover, the warrants that we issued in connection with the pricing of the Convertible Notes would need to be included in the number of diluted shares reported if our stock price increases above the relevant exercise price on an average basis during the applicable period, which would negatively impact our diluted earnings per share.

Our portfolios of liquid securities and other investments may lose value or become impaired.

Our investment portfolio consists of agency securities, corporate securities, money market funds, municipal securities, government securities and commercial paper. Although we follow an established investment policy and seek to minimize the credit risk associated with investments by investing primarily in investment grade, highly liquid securities and by limiting exposure to any one issuer depending on credit quality, we cannot give assurances that the

assets in our investment portfolio will not lose value, become impaired, or suffer from illiquidity.
Changes in our tax rates or our exposure to additional income tax liabilities could affect our operating results and financial condition.
Our future effective tax rates could be favorably or unfavorably affected by changes in the valuation of our deferred tax assets and liabilities, the geographic mix of our revenue, or by changes in tax laws or their interpretation. Significant judgment

is required in determining our worldwide provision for income taxes. In addition, we are subject to the continuous examination of our income tax returns by tax authorities, including the IRS. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance, however, that the outcomes from these continuous examinations will not have an adverse effect on our operating results and financial condition. The Tax Cuts and Jobs Act of 2017, or the 2017 Tax Act, as well as new, evolving or revised tax laws and regulations globally, and any changes in the application or interpretation of these regulations may have an adverse effect on our business or on our results of operations. Additionally, the U.S. Treasury Department and other standard-setting bodies will continue to issue guidance and interpret how provisions of the 2017 Tax Act will be administered and applied that may significantly affect our results of operations in the period issued.

There can be no assurance that we will continue to return capital to our stockholders through the payment of cash dividends and/or the repurchase of our stock.

From time to time, our Board of Directors authorizes the payment of cash dividends or additional share repurchase authority under our ongoing stock repurchase program as part of our capital return to stockholders. The amount and timing of cash dividends and stock repurchases are subject to capital availability and our determination that such cash dividends or stock repurchases are in the best interest of our stockholders and are in compliance with all respective laws and our applicable agreements. Our ability to pay cash dividends or repurchase stock will depend upon, among other factors, our cash balances and potential future capital requirements for strategic transactions, debt service, capital expenditures, working capital and other general corporate purposes, as well as our results of operations, financial condition and other factors that we may deem relevant. Moreover, a reduction in, or the completion of, our stock repurchase program could have a negative effect on our stock price. We can provide no assurance that we will continue to pay cash dividends or repurchase stock at favorable prices, if at all.

Our stock price could be volatile, particularly during times of economic uncertainty and volatility in domestic and international stock markets, and you could lose the value of your investment.

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

- actual or anticipated variations in operating and financial results, including the failure to meet key operational metrics;
- analyst reports or recommendations;
- rumors, announcements, or press articles regarding our or our competitors' operations, management, organization, financial condition, or financial statements; and
- other events or factors, many of which are beyond our control.

The stock market in general, The Nasdaq Global Select Market, and the market for software companies and technology companies in particular, have experienced extreme price and volume fluctuations. These fluctuations have often been unrelated or disproportionate to operating performance. These fluctuations may continue in the future and this could materially and adversely affect the market price of our stock, regardless of operating performance.

Changes or modifications in financial accounting standards may have a material adverse impact on our reported results of operations or financial condition.

A change or modification in accounting policies can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New pronouncements and varying interpretations of existing pronouncements have occurred with frequency and may occur in the future. Changes to existing rules, or changes to the interpretations of existing rules, could lead to changes in our accounting practices, and such changes could materially adversely affect our reported financial results or the way we conduct our business.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have received no written comments regarding our periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of our 2018 fiscal year that remain unresolved.

ITEM 2. PROPERTIES

We lease and sublease office space in the Americas, which is comprised of the United States, Canada and Latin America, EMEA, which is comprised of Europe, the Middle East and Africa, and APJ, which is comprised of Asia-Pacific and Japan. The following table presents the location and square footage of our leased office space as of December 31, 2018:

	Square footage
Americas	786,857
EMEA	243,382
APJ	636,209
Total	1,666,448

In addition, we own land and buildings in Fort Lauderdale, Florida with approximately 317,000 square feet of office space used for our corporate headquarters and approximately 41,000 square feet of office space in Chalfont St. Peter, United Kingdom.

We believe that our existing facilities are adequate for our current needs. As additional space is needed in the future, we believe that suitable space will be available in the required locations on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

Due to the nature of our business, we are subject to patent infringement claims, including current suits against us or one or more of our wholly-owned subsidiaries alleging infringement by various Citrix solutions and services. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Common Stock and Dividend Policy

Our common stock is currently traded on The Nasdaq Global Select Market under the symbol CTXS. As of February 8, 2019, there were 471 holders of record of our common stock.

We currently intend to retain any earnings for use in our business, for investment in acquisitions to repurchase shares of our common stock, and to pay future dividends. Historically, we have not paid any cash dividends on our capital stock. However, on October 24, 2018, we announced that our Board of Directors approved a quarterly cash dividend of $0.35
per share which was paid on December 21, 2018 to all shareholders of record as of the close of business on December 7, 2018. Additionally, on January 23, 2019, we announced that our Board of Directors approved a quarterly cash dividend of $0.35 per share. This dividend is payable on March 22, 2019 to all shareholders of record as of the close of business on March 8, 2019.

Future dividend declarations, if any, as well as the record and payment dates for such dividends, are subject to the final
determination of our Board of Directors. Our Board of Directors will continue to review our capital allocation strategy for potential modifications and will determine whether to pay future dividends on a quarterly basis based on our financial performance, business outlook and other considerations.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

Our Board of Directors has authorized an ongoing stock repurchase program, of which $1.7 billion was approved in November 2017 and $750.0 million was approved in October 2018. We may use the approved dollar authority to repurchase stock at any time until the approved amount is exhausted. The objective of the stock repurchase program is to improve stockholders' returns. At December 31, 2018, approximately $767.9 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock. A portion of the funds used to repurchase stock over the course of the program was provided by net proceeds from the Convertible Notes and 2027 Notes offerings, as well as proceeds from employee stock awards and the related tax benefit. We are authorized to make purchases of our common stock using general corporate funds through open market purchases, pursuant to a Rule 10b5-1 plan or in privately negotiated transactions.

The following table shows the monthly activity related to our stock repurchase program for the quarter ended December 31, 2018.

	Total Number of Shares Purchased [(1)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate dollar value of Shares that may yet be Purchased under the Plans or Programs (in thousands)[(2)]
October 1, 2018 through October 31, 2018	52,998	$ 110.35	—	$ 1,147,896
November 1, 2018 through November 30, 2018	1,361,524	$ 107.84	1,297,589	$ 1,007,896
December 1, 2018 through December 31, 2018	2,299,135	$ 106.71	2,247,135	$ 767,896
Total	3,713,657	$ 107.17	3,544,724	$ 767,896

(1) Includes approximately 168,933 shares withheld from restricted stock units that vested in the fourth quarter of 2018 to satisfy minimum tax withholding obligations that arose on the vesting of restricted stock units.

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

Securities Authorized for Issuance Under Equity Compensation Plans

Information about our equity compensation plans is incorporated herein by reference to Item 12 of Part III of this Annual Report on Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data is derived from our consolidated financial statements. This data should be read in conjunction with the consolidated financial statements and notes thereto, and with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended December 31,				
	2018	2017(a)	2016(a)	2015(a)	2014(a)
	(In thousands, except per share data)				
Consolidated Statements of Income Data:					
Net revenues	$2,973,903	$2,824,686	$2,736,080	$2,646,154	$2,563,064
Cost of net revenues[(b)]	433,803	439,646	404,889	474,040	493,706
Gross margin	2,540,100	2,385,040	2,331,191	2,172,114	2,069,358
Operating expenses[(c)]	1,862,140	1,814,043	1,771,027	1,969,322	1,894,438
Income from operations	677,960	570,997	560,164	202,792	174,920
Interest income	40,030	27,808	16,686	11,675	9,421
Interest expense	(80,162)	(51,609)	(44,949)	(44,153)	(28,332)
Other (expense) income, net	(8,373)	3,150	(4,131)	(5,730)	(7,694)
Income from continuing operations before income taxes	629,455	550,346	527,770	164,584	148,315
Income tax expense (benefit)	53,788	528,361	57,915	(50,549)	(18,904)
Income from continuing operations	575,667	21,985	469,855	215,133	167,219
(Loss) income from discontinued operations, net of income tax expense	—	(42,704)	66,257	104,228	84,504
Net income (loss)	$575,667	$(20,719)	$536,112	$319,361	$251,723
Diluted earnings (loss) per share:					
Income from continuing operations	3.94	0.14	2.99	1.34	0.98
(Loss) income from discontinued operations	—	(0.27)	0.42	0.65	0.49
Diluted net earnings (loss) per share	$3.94	$(0.13)	$3.41	$1.99	$1.47
Weighted average shares outstanding - diluted	145,934	155,503	157,084	160,362	171,270

	December 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Consolidated Balance Sheet Data[(d)]:					
Total assets	$5,136,049	$5,820,176	$6,390,227	$5,467,517	$5,512,007
Total equity	551,519	992,461	2,608,727	1,973,446	2,173,645

(a) The selected financial data for fiscal years ended December 31, 2017, 2016, 2015 and 2014 has been adjusted to be presented on a continuing operations basis. Refer to Note 3 Discontinued Operations in our Consolidated Financial Statements for additional information.

(b) Cost of net revenues includes amortization and impairment of product related intangible assets of $47.1 million, $65.7 million, $55.4 million, $127.3 million, and $142.2 million in 2018, 2017, 2016, 2015 and 2014, respectively.

(c) Operating expenses includes amortization and impairment of other intangible assets of $15.9 million, $17.2 million, $15.1 million, $97.5 million, and $41.9 million in 2018, 2017, 2016, 2015 and 2014, respectively. Operating expenses also include restructuring charges of $16.7 million, $72.4 million, $67.4 million, $98.7 million and $14.1 million in 2018, 2017, 2016, 2015 and 2014, respectively.

(d) Balance Sheet amounts prior to 2017 include amounts for the GoTo Business. Refer to Note 3 Discontinued Operations in our Consolidated Financial Statements for additional information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Citrix aims to power a better way to work by delivering the experience, security, and choice people and organizations need to unlock innovation, engage customers, and be productive - anytime, anywhere. We do this by delivering a general purpose digital workspace that empowers all users with unified, secure, and reliable access to all apps and content needed to be productive - anytime, anywhere. We help customers reimagine the future of work by delivering unified digital workspace, networking, and analytics solutions that improve employee experience and productivity, while also simplifying IT's ability to adopt and manage complex cloud environments.

We market and license our solutions through multiple channels worldwide, including selling through resellers and direct over the Web. Our partner community comprises thousands of value-added resellers, or VARs known as Citrix Solution Advisors, value-added distributors, or VADs, systems integrators, or SIs, independent software vendors, or ISVs, original equipment manufacturers, or OEMs, and Citrix Service Providers, or CSPs.

Executive Summary

Citrix is powering a better way to work with unified workspace, networking, and analytics solutions that help organizations unlock innovation, engage customers, and boost productivity, without sacrificing security. With Citrix, users get a seamless work experience and IT has a unified platform to secure, manage, and monitor diverse technologies in complex cloud environments.

During the year ended December 31, 2018, our transition to the cloud and a subscription-based business model continued to gain momentum, which contributed to our strong financial results. In addition, we have maintained a disciplined approach to spending, while continuing to invest more into demand generation and sales capacity in order to support our growth, business model transition, and cloud infrastructure. We accelerated our innovation in the cloud, with the introduction of new services, features and capabilities in our cloud solutions to build out a comprehensive secure digital workspace. We expect our transition to a subscription-based business model to provide financial and operational benefits to Citrix, including by increasing customer life-time-value, expanding our customer use-cases and innovation opportunities, and extending the use of Citrix services to securely deliver a broader array of applications, including Web, software-as-a-service (SaaS) apps and services.

On February 2, 2018, we entered into an Accelerated Share Repurchase, or ASR, transaction with a counterparty to pay an aggregate of $750.0 million in exchange for the immediate delivery of approximately 6.5 million shares of our common stock based on current market prices. The purchase price per share under the ASR was based on the volume-weighted average price of our common stock during the term of the ASR, less a discount. The ASR was entered into pursuant to our existing share repurchase program. Final settlement of the ASR agreement was completed in April 2018, and we received delivery of an additional 1.6 million shares of our common stock.

On May 8, 2018, we announced our intention to initiate a quarterly cash dividend beginning in the fourth quarter of 2018, subject to declaration by our Board of Directors, as part of our capital return program. On October 24, 2018, we announced that our Board of Directors declared a $0.35 per share dividend payable December 21, 2018 to all shareholders of record as of the close of business on December 7, 2018. Additionally, on October 24, 2018 we announced that our Board of Directors approved an increase of an additional $750.0 million to our existing share repurchase program.

On January 23, 2019, we announced that our Board of Directors declared a $0.35 per share dividend payable March 22, 2019 to all shareholders of record as of the close of business on March 8, 2019. Our Board of Directors will continue to review our capital allocation strategy for potential modifications and will determine whether to repurchase shares of our common stock and/or declare future dividends based on our financial performance, business outlook and other considerations.

Reclassifications

Beginning in fiscal year 2018, we revised our presentation of revenue to align with our subscription business model transition as follows: (1) subscription revenue, which includes revenue from our cloud services offerings and on-premise subscriptions as well as revenue from our CSP offerings; (2) product and license revenue from perpetual product offerings; and (3) support and services revenue for perpetual product and license offerings. See Note 2 to our consolidated financial statements for more information regarding the reclassifications described above.

Summary of Results

For the year ended December 31, 2018 compared to the year ended December 31, 2017, we delivered the following financial performance:

- Subscription revenue increased 44.7% to $455.3 million;
- Product and license revenue decreased 4.2% to $734.5 million;
- Support and services revenue increased 2.3% to $1.78 billion;
- Gross margin as a percentage of revenue increased 1.0% to 85.4%;
- Operating income increased 18.7% to $678.0 million;
- Diluted earnings per share increased from $0.14 to $3.94; and
- Unbilled revenue increased $258.4 million to $338.5 million.

Our Subscription revenue increased primarily due to increased customer adoption of our cloud-based solutions from our Digital Workspace and Networking offerings delivered via the cloud. Our Product and license revenue decreased primarily due to lower sales of our perpetual Digital Workspace solutions and Networking products as customers continued to shift to our cloud-based solutions. The increase in Support and services revenue was primarily due to increased sales of maintenance services across our Digital Workspace perpetual offerings as our customers have shifted to our Customer Success Service offerings. We currently expect total revenue to increase when comparing the first quarter of 2019 to the first quarter of 2018. In addition, when comparing the 2019 fiscal year to the 2018 fiscal year, we currently expect total revenue to increase. The increase in gross margin was primarily due to an increase in sales and due to 2017 including the impairment of certain product related intangible assets. The increase in operating income when comparing 2018 to 2017 was primarily due to a higher gross margin driven by an increase in sales and lower intangible asset amortization, partially offset by an increase in operating expenses. The increase in diluted earnings per share when comparing 2018 to 2017 was primarily due to an increase in operating margin, and a decrease in income tax expense, as well as a decrease in the number of weighted average shares outstanding due to share repurchases. These increases were partially offset by an increase in interest expense related to our 2027 Notes.

2018 Business Combinations

Sapho, Inc.

On November 13, 2018, we acquired all of the issued and outstanding securities of Sapho, Inc. (“Sapho”), whose technology is intended to advance our development of the intelligent workspace. The acquired technology enables efficient workstyles by creating a unified and customizable notification experience for business applications. The total preliminary cash consideration for this transaction was $182.9 million, net of $3.7 million cash acquired. Transaction costs associated with the acquisition were not significant.

Cedexis, Inc.

On February 6, 2018, we acquired all of the issued and outstanding securities of Cedexis, Inc. (“Cedexis”) whose solution is a real-time data driven service for dynamically optimizing the flow of traffic across public clouds and data centers that provides a dynamic and reliable way to route and manage Internet performance for customers moving towards hybrid and multi-cloud deployments. The total cash consideration for this transaction was $66.0 million, net of $6.0 million cash acquired. Transaction costs associated with the acquisition were not significant.

We have included the effect of the 2018 business combinations in our results of operations prospectively from the date of acquisition.

2017 Business Combination

On January 3, 2017, we acquired all of the issued and outstanding securities of Unidesk Corporation (“Unidesk”). We acquired Unidesk to enhance our application management and delivery offerings. The total cash consideration for this transaction was $60.4 million, net of $2.7 million cash acquired. Transaction costs associated with the acquisition were not significant.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations are based upon our 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,

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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.

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

Note 2 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 describes the significant accounting policies and methods used in the preparation of our consolidated financial statements. There have been no material changes to the critical accounting policies, other than updates related to the adoption of the new revenue standard. See Note 2 to our consolidated financial statements for more information related to revenue recognition.

Revenue Recognition

We generate all of our revenues from contracts with customers. At contract inception, we assess the solutions or services, or bundles of solutions and services, obligated in the contract with a customer to identify each performance obligation within the contract, and then evaluate whether the performance obligations are capable of being distinct and distinct within the context of the contract. Solutions and services that are not both capable of being distinct and distinct within the context of the contract are combined and treated as a single performance obligation in determining the allocation and recognition of revenue.

The standalone selling price is the price at which we would sell a promised product or service separately to the customer. For the majority of our software licenses and hardware, CSP and on-premise subscription software licenses, we use the observable price in transactions with multiple performance obligations. For the majority of our support and services, and cloud-hosted subscription offerings, we use the observable price when we sell that support and service and cloud-hosted subscription separately to similar customers. If the standalone selling price for a performance obligation is not directly observable, we estimate it. We estimate the standalone selling price by taking into consideration market conditions, economics of the offering and customers’ behavior. We maximize the use of observable inputs and apply estimation methods consistently in similar circumstances. We allocate the transaction price to each distinct performance obligation on a relative standalone selling price basis.

Revenues are recognized when control of the promised products or services are transferred to customers, in an amount that reflects the consideration that we expect to receive in exchange for those products or services. See Note 2 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for further information on our revenue recognition.

Valuation and Classification of Investments

The authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Our available-for-sale investments are measured to fair value on a recurring basis. In addition, we hold direct investments in privately-held companies which are accounted for at cost, less impairment plus or minus adjustments resulting from observable price changes in orderly transactions for an identical or a similar investment of the same issuer. These investments are periodically reviewed for impairment and when indicators of impairment exist, are measured to fair value as appropriate on a non-recurring basis. We also hold equity interests in certain private equity funds which are accounted for under the net asset value practical expedient. The net asset value of these investments is determined using quarterly capital statements from the funds which are based on our contributions to the funds, allocation of profit and loss and changes in fair value of the underlying fund investments. In determining the fair value of our investments, we are sometimes required to use various alternative valuation techniques. The authoritative guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

The authoritative 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 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 requires us to develop our own assumptions. Observable inputs are those that market participants would use in pricing the asset or liability that are based on market data obtained from independent sources, such as market quoted prices. When Level 1 observable inputs for our investments are not available to determine their fair value, we must then use other inputs which may include indicative pricing for securities from the same issuer with similar terms, yield curve information, benchmark data, prepayment speeds and credit quality or unobservable inputs that reflect our estimates of the assumptions market participants would use in pricing the investments based on the best information available in the circumstances. When valuation techniques, other than those described as Level 1 are utilized, management must make estimations and judgments in determining the fair value for its investments. The degree to which management's estimation and judgment is required is generally dependent upon the market pricing available for the investments, the availability of observable inputs, the frequency of trading in the investments and the investment's complexity. If we make different judgments regarding unobservable inputs, we could potentially reach different conclusions regarding the fair value of our investments.

After we have determined the fair value of our investments, for those that are in an unrealized loss position, we must then determine if the investment is other-than-temporarily impaired. We review our investments quarterly for indicators of other-than-temporary impairment. This determination requires significant judgment and if different judgments are used, the classification of the losses related to our investments could differ. In making this judgment, we employ a systematic methodology that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the carrying value of an available-for-sale investment exceeds its fair value, we evaluate, among other factors, general market conditions, the duration and extent to which the fair value is less than carrying value, our intent to retain or sell the investment, and whether it is more likely than not that we will not be required to sell the investment before the recovery of its amortized cost basis, which may not be until maturity. We also consider specific adverse conditions related to the financial health of and business outlook for the issuer, including industry and sector performance, rating agency actions and changes in credit default swap levels. During the year ended December 31, 2018, we recorded an other than temporary impairment of $4.6 million of certain available-for-sale securities, which was included in Other (expense) income, net in the accompanying consolidated statements of income.

For our investments in privately-held companies accounted for at cost, less impairment plus or minus adjustments resulting from observable price changes in orderly transactions for an identical or a similar investment of the same issuer, we periodically review for impairment and observable price changes on a quarterly basis, and adjust the carrying value accordingly. See Notes 5 and 6 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 and "Liquidity and Capital Resources" for more information on our investments.

Intangible Assets

We have product related technology assets and other intangible assets from acquisitions and other third party agreements. We allocate the purchase price of intangible assets acquired through third party agreements based on their estimated relative fair values. We allocate a portion of the purchase price of acquired companies to the product related technology assets and other intangible assets acquired based on their estimated fair values. We typically engage third party appraisal firms to assist us in determining the fair values and useful lives of product related technology assets and other intangible assets acquired. Such valuations and useful life determinations require us to make significant estimates and assumptions. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in determining the fair value and useful lives of the product related technology assets include, but are not limited to, future expected cash flows earned from the product related technology and discount rates applied in determining the present value of those cash flows. Critical estimates in valuing certain other intangible assets include, but are not limited to, future expected cash flows from customer contracts, customer retention rates, customer lists, distribution agreements, patents, brand awareness and market position, as well as discount rates.

Management's estimates of fair value are based upon assumptions believed to be reasonable. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results. We monitor acquired intangible assets for impairment on a periodic basis by reviewing for indicators of impairment. If an indicator exists, we compare the estimated net realizable value to the unamortized cost of the intangible asset. The recoverability of the intangible assets is primarily dependent upon our ability to commercialize solutions utilizing the acquired technologies, retain existing customers and customer contracts, and maintain brand awareness. The estimated net realizable value of the acquired intangible assets is based on the estimated undiscounted future cash flows derived from such intangible assets. Our assumptions about future revenues and expenses require significant judgment associated with the forecast of the performance of our solutions, customer retention rates and ability to secure and maintain our market position. Actual revenues and costs could vary significantly from these forecasted amounts. If these solutions are not ultimately accepted by our customers and distributors, and there is no alternative future use for the technology; or if we fail to retain acquired customers or successfully market acquired brands, we could determine that some or all of the remaining $167.2 million carrying value of our acquired intangible assets is impaired. In the event of impairment, we would record an impairment charge to earnings that could have a material adverse effect on our results of operations.

Goodwill

The excess of the fair value of the purchase price over the fair values of the identifiable assets and liabilities from our acquisitions is recorded as goodwill. At December 31, 2018, we had $1.8 billion in goodwill related to our acquisitions. Our revenues are derived from sales of our Digital Workspace solutions and Networking products, and related support. During 2018, we initiated an effort to streamline and simplify our product branding and packaging, which included naming updates to the portfolio to provide clarity on our offerings and unify our sales motions. The change resulted in the consolidation of our Content Collaboration product group with Workspace Services and renaming the new product group Digital Workspace. As a result, our two reporting units (Enterprise and Service Provider and Content Collaboration) were combined into one, consistent with how management reviews the operating results of the business. In connection with this change, we performed a qualitative goodwill assessment of the reporting units and determined there were no indicators of impairment during the third quarter of 2018. The change in reporting units did not result in a reallocation of goodwill or a change in reportable segments. See Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for additional information regarding our reportable segment.

We account for goodwill in accordance with FASB’s authoritative guidance, which requires that goodwill and certain intangible assets are not amortized, but are subject to an annual impairment test. We complete our goodwill and certain intangible assets impairment tests on an annual basis, during the fourth quarter of our fiscal year, or more frequently, if changes in facts and circumstances indicate that an impairment in the value of goodwill and certain intangible assets recorded on our balance sheet may exist.

In the fourth quarter of 2018, we performed a qualitative assessment to determine whether further quantitative impairment testing for goodwill and certain intangible assets is necessary, and we refer to this assessment as the Qualitative Screen. In performing the Qualitative Screen, we are required to make assumptions and judgments including but not limited to the following: the evaluation of macroeconomic conditions as related to our business, industry and market trends, and the overall future financial performance of our reporting units and future opportunities in the markets in which they operate. If after performing the Qualitative Screen impairment indicators are present, we would perform a quantitative impairment test to estimate the fair value of goodwill and certain intangible assets. In doing so, we would estimate future revenue, consider market factors and estimate our future cash flows. Based on these key assumptions, judgments and estimates, we determine whether we need to record an impairment charge to reduce the value of the goodwill and certain intangible assets carried on our balance sheet to its estimated fair value. Assumptions, judgments and estimates about future values are complex and often subjective and can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy or our internal forecasts. Although we believe the assumptions, judgments and estimates we have made have been reasonable and appropriate, different assumptions, judgments and estimates could materially affect our results of operations. As a result of the Qualitative Screen, no further quantitative impairment test was deemed necessary. There was no impairment of goodwill as a result of the annual impairment tests completed during the fourth quarters of 2018 and 2017.

Income Taxes

We are required to estimate our income taxes in each of the jurisdictions in which we operate as part of the process of preparing our consolidated financial statements. At December 31, 2018, we had $121.9 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. At December 31, 2018, we determined that an $85.4 million valuation allowance relating to deferred tax assets for net operating losses and tax credits was necessary. If the estimates and assumptions used in our determination change in the future, we could be required to revise our estimates of the valuation allowances against our deferred tax assets and adjust our provisions for additional income taxes.

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 or cash flows.

The 2017 Tax Act significantly revised the U.S. tax code by, in part but not limited to: reducing the U.S. corporate tax rate from 35% to 21% and imposing a mandatory one-time transition tax on certain un-repatriated earnings of foreign subsidiaries, modifying executive compensation deduction limitations, and repealing the deduction for domestic production activities. The SEC staff acknowledged the challenges companies face incorporating the effects of tax reform by their financial reporting deadlines. In response, on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118, or SAB 118, to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete accounting for certain income tax effects of the 2017 Tax Act. We completed the accounting for the tax effects of all of the provisions of the 2017 Tax Act within the required measurement period and as a result recorded adjustments to the previous provisional amounts. Adjustments of $26.3 million were recorded during the year ended December 31, 2018, which include a tax benefit of $21.9 million related to the finalization of the one-time transition tax on deemed repatriation of foreign income and a tax benefit of $4.4 million related to the finalization of the remeasurement of the U.S. deferred tax assets and liabilities due to the maximum U.S. federal corporate rate reduction from 35% to 21%.

Convertible Senior Notes

In April 2014, we completed a private placement of our Convertible Notes due 2019 with a net share settlement feature, meaning that upon conversion, the principal amount will be settled in cash and the remaining amount, if any, will be settled in cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. In accordance with accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we first determine the carrying amount of the liability component by measuring the fair value of a similar liability that does not have an associated equity component. Then we determine the carrying amount of the equity component represented by the embedded conversion option by deducting the fair value of the liability component from the initial proceeds ascribed to the convertible debt instrument as a whole. Debt discount and debt issuance costs are amortized to interest expense using the effective interest method.

In accounting for the settlement of the Convertible Notes upon early conversions, we allocated the fair value of the settlement consideration remitted to the noteholders between the liability and equity components. The portion of the settlement consideration allocated to the extinguishment of the liability component was based on the fair value of that component immediately before extinguishment. A loss was recognized in the consolidated statements of income for the difference between the consideration allocated to the liability component and the sum of the carrying amount of the liability component and any unamortized debt issuance costs. Additionally, upon settlement of the converted principal, we derecognized the related unamortized discount and issuance costs. We allocated the remaining settlement consideration to the reacquisition of the equity component and recognized this amount as a reduction of Stockholders' equity.

The following discussion relating to the individual financial statement captions, our overall financial performance, operations and financial position should be read in conjunction with the factors and events described in “— Overview” and Part 1 – Item 1A entitled “Risk Factors,” included in this Annual Report on Form 10-K for the year ended December 31, 2018, which could impact our future performance and financial position.

Results of Operations

The following table sets forth our consolidated statements of income data and presentation of that data as a percentage of change from year-to-year (in thousands other than percentages):

	Year Ended December 31,			2018 Compared to 2017	2017 Compared to 2016
	2018	2017	2016		
Revenues:					
Subscription	$455,276	$314,735	$245,606	44.7 %	28.1 %
Product and license	734,495	766,777	810,975	(4.2)	(5.4)
Support and services	1,784,132	1,743,174	1,679,499	2.3	3.8
Total net revenues	2,973,903	2,824,686	2,736,080	5.3	3.2
Cost of net revenues:					
Cost of subscription, support and services	266,495	250,602	228,080	6.3	9.9
Cost of product and license revenues	120,249	123,356	121,391	(2.5)	1.6
Amortization and impairment of product related intangible assets	47,059	65,688	55,418	(28.4)	18.5
Total cost of net revenues	433,803	439,646	404,889	(1.3)	8.6
Gross margin	2,540,100	2,385,040	2,331,191	6.5	2.3
Operating expenses:					
Research and development	439,984	415,801	395,373	5.8	5.2
Sales, marketing and services	1,074,234	1,006,112	976,339	6.8	3.0
General and administrative	315,343	302,565	316,838	4.2	(4.5)
Amortization and impairment of other intangible assets	15,854	17,190	15,076	(7.8)	14.0
Restructuring	16,725	72,375	67,401	(76.9)	7.4
Total operating expenses	1,862,140	1,814,043	1,771,027	2.7	2.4
Income from continuing operations	677,960	570,997	560,164	18.7	1.9
Interest income	40,030	27,808	16,686	44.0	66.7
Interest expense	(80,162)	(51,609)	(44,949)	55.3	14.8
Other (expense) income, net	(8,373)	3,150	(4,131)	(365.8)	(176.3)
Income from continuing operations before income taxes	629,455	550,346	527,770	14.4	4.3
Income tax expense	53,788	528,361	57,915	(89.8)	812.3
Income from continuing operations	$575,667	$21,985	$469,855	2,518.5	(95.3)
(Loss) income from discontinued operations	—	(42,704)	66,257	(100.0)	(164.5)
Net income (loss)	$575,667	$(20,719)	$536,112	(2,878.4)%	(103.9)%

Revenues

Net revenues include Subscription, Product and license and Support and services revenues.

Subscription revenue relates to fees which are generally recognized ratably over the contractual term, and primarily consists of fees related to our Digital Workspace and Networking offerings. Our Digital Workspace and Networking subscriptions may be delivered via a cloud service, an on-premise license or in a hybrid cloud service and are inclusive of the related support as applicable. For our hybrid and on-premise subscription offerings, a portion of the revenue is recognized at a point in time. In addition, 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.

Product and license revenue primarily represents fees related to the perpetual licensing of the following major solutions:

- Digital Workspace is primarily comprised of our Application Virtualization solutions which include Citrix Virtual Apps and Desktops, our unified endpoint management solutions, which include Citrix Endpoint Management, Citrix Content Collaboration, and Citrix Workspace; and

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- Networking products, which primarily include Citrix ADC and Citrix SD-WAN.

We offer incentive programs to our VADs and VARs to stimulate demand for our solutions. Product and license revenues associated with these programs are partially offset by these incentives to our VADs and VARs.

Support and services revenue consists of maintenance and support fees related to the following offerings:

- Customer Success Services, which gives customers a choice of tiered support offerings that combine the elements of product version upgrades, guidance, enablement, support and proactive monitoring to help our customers and our partners fully realize their business goals. Fees associated with this offering are recognized ratably over the term of the contract; and
- Hardware Maintenance fees for our perpetual Networking products, which include technical support and hardware and software maintenance, are recognized ratably over the contract term; and
- Fees from consulting services related to the implementation of our solutions, which are recognized as the services are provided; and
- Fees from product training and certification, which are recognized as the services are provided.

	Year Ended December 31,			2018 Compared to 2017	2017 Compared to 2016
	2018	2017	2016		
	(In thousands)				
Revenues:					
Subscription	$455,276	$314,735	$245,606	$140,541	$69,129
Product and license	734,495	766,777	810,975	(32,282)	(44,198)
Support and services	1,784,132	1,743,174	1,679,499	40,958	63,675
Total net revenues	$2,973,903	$2,824,686	$2,736,080	$149,217	$88,606

Subscription

Subscription revenue increased during 2018 compared to 2017 primarily due to increased customer adoption of our cloud-based solutions from our Digital Workspace offerings of $99.1 million and Networking offerings of $41.4 million delivered via the cloud. Also contributing to the increase is the upfront recognition of on-premise subscription revenue during fiscal year 2018 under the new revenue accounting guidance. Subscription revenue increased during 2017 compared to 2016 primarily due to increased customer adoption of our cloud-based solutions from our Digital Workspace offerings of $61.5 million and from our Networking offerings of $7.6 million. We currently expect our Subscription revenue to increase when comparing the first quarter of 2019 to the first quarter of 2018 as customers continue to shift to our cloud-based solutions.

Product and license

Product and license revenue decreased during 2018 when compared to 2017 primarily due to lower sales of our perpetual Digital Workspace solutions of $22.8 million and lower sales of our perpetual Networking products of $9.5 million as customers continue to shift to our cloud-based solutions. Product and license revenue decreased during 2017 when compared to 2016 due to lower sales of our perpetual Networking products of $23.3 million and lower sales of our perpetual Digital Workspace solutions of $21.2 million. We currently expect Product and license revenue to decrease when comparing the first quarter of 2019 to the first quarter of 2018 due to our continued transition to a subscription-based business model as customers continue to shift to our cloud-based solutions.

Support and services

Support and services revenue increased during 2018 compared to 2017 primarily due to increased sales of maintenance revenues from our Customer Success Services offerings. Support and services revenue increased during 2017 compared to 2016 primarily due to increased sales of maintenance revenues from our Customer Success Services offerings of $39.9 million and higher sales of our maintenance revenues for our Networking products of $23.3 million. We currently expect Support and services revenue to increase when comparing the first quarter of 2019 to the first quarter of 2018.

Deferred Revenue, Unbilled Revenue and Backlog

Deferred revenues are primarily comprised of Support and services revenue from maintenance fees, which include software and hardware maintenance, technical support related to our perpetual offerings and services revenue related to our

consulting contracts. Deferred revenues also include Subscription revenue from our Digital Workspace and cloud-based subscription offerings. Deferred revenue primarily consists of billings or payments received in advance of revenue recognition and is recognized in our consolidated balance sheets and consolidated statements of income as the revenue recognition criteria are met.

Unbilled revenue primarily represents contractually committed future billings under our subscription agreements that have not been invoiced and, accordingly, are not recorded in accounts receivable and deferred revenue within our consolidated financial statements.

Deferred revenue and unbilled revenue are influenced by several factors, including seasonality within the year, the specific timing, size and duration of customer subscription agreements, varying billing cycles of subscription agreements, and invoice timing. Fluctuations in unbilled revenue may not be a reliable indicator of future performance and the related revenue associated with these contractual commitments.

The following table presents the amounts of deferred and unbilled revenue (in thousands):

	December 31, 2018	December 31, 2017	2018 compared to 2017
Deferred revenue	$ 1,834,572	$ 1,864,243	$ (29,671)
Unbilled revenue	338,463	80,074	258,389

Deferred revenues decreased approximately $29.7 million as of December 31, 2018 compared to December 31, 2017 primarily due to the $99.9 million cumulative effect adjustment from adoption of the new revenue recognition accounting standard, partially offset by an increase of $79.4 million related to increased customer adoption of our cloud-based subscription offerings. Unbilled revenue increased primarily due to an increase in multi-year subscription agreements as a result of an increase in customer adoption of our cloud-based subscription offerings. See Note 2 to our consolidated financial statements for detailed information related to our adoption of the new revenue standard.

While it is generally our practice to promptly ship our products upon receipt of properly finalized orders, at any given time, we have confirmed product license orders that have not shipped and are unfulfilled. We refer to those unfulfilled product
license orders at the end of a given period as “product and license backlog.” As of December 31, 2018 and 2017, the amount of
product and license backlog was not material. We do not believe that backlog, as of any particular date, is a reliable indicator of
future performance.

International Revenues

International revenues (sales outside the United States) accounted for approximately 47.0% of our net revenues for the year ended December 31, 2018 and 46.3% of our net revenues for the years ended December 31, 2017 and 2016, respectively. The change in our international revenues as a percentage of our net revenues for the periods presented is not significant. For detailed information on international revenues, please refer to Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018.

Cost of Net Revenues

	Year Ended December 31,			2018 Compared to 2017	2017 Compared to 2016
	2018	2017	2016		
	(In thousands)				
Cost of subscription, support and services	$266,495	$250,602	$228,080	$ 15,893	$ 22,522
Cost of product and license revenues	120,249	123,356	121,391	(3,107)	1,965
Amortization and impairment of product related intangible assets	47,059	65,688	55,418	(18,629)	10,270
Total cost of net revenues	$433,803	$439,646	$404,889	$ (5,843)	$ 34,757

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

Cost of subscription, support and services revenues increased during 2018 when compared to 2017 primarily due to an increase in sales of our subscription offerings of $17.8 million and professional services of $5.6 million, partially offset by a decrease in costs of providing technical support of $7.4 million, primarily due to reductions in headcount. Cost of subscription, support and services revenues increased during 2017 compared to 2016 primarily due to an increase in sales of our software maintenance of $12.8 million from our Customer Success Services offering, and an increase in sales of our Digital Workspace offerings delivered via the cloud of $7.9 million. We currently expect Cost of subscription, support and services revenues to increase when comparing the first quarter of 2019 to the first quarter of 2018, consistent with the expected increases in Subscription revenue and Support and services revenue as discussed above.

Cost of product and license revenues decreased during 2018 when compared to 2017 primarily due to lower overall sales of our perpetual Networking products, which contain hardware components that have a higher cost than our software products. Cost of product and license revenues increased during 2017 when compared to 2016 primarily due to royalties from our
Digital Workspace solutions. We currently expect Cost of product and license revenues to decrease when comparing the first quarter of 2019 to the first quarter of 2018.

Amortization and impairment of product related intangible assets decreased during 2018 as compared to 2017 primarily due to the impairments of certain acquired intangible assets in 2017. Amortization and impairment of product related intangible assets increased during 2017 as compared to 2016 primarily due to the impairments of certain acquired intangible assets in 2017.

Gross Margin

Gross margin as a percent of revenue was 85.4% for 2018, 84.4% for 2017 and 85.2% for 2016. Gross margin increased during 2018 as compared to 2017 primarily due to the impairment of certain product related intangible assets in 2017. Gross margin remained consistent when comparing 2017 to 2016.

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. 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 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.

Research and Development Expenses

	Year Ended December 31, 2018	2017	2016	2018 Compared to 2017	2017 Compared to 2016
	(In thousands)				
Research and development	$				