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

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, 2006

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission File Number 0-27084

CITRIX SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**75-2275152**
(State or other jurisdiction of	***(I.R.S. Employer***
incorporation or organization)	***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 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 ¨ No x

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 ¨ No x

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. ¨

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

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ 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 $7,378,394,506. As of August 30, 2007 there were 179,755,470 shares of the registrant s Common Stock outstanding.

CITRIX SYSTEMS, INC.

TABLE OF CONTENTS

Table of Contents

EXPLANATORY NOTE

In this Annual Report on Form 10-K as of and for the year ended December 31, 2006, Citrix Systems, Inc., or the Company, is restating its consolidated balance sheet as of December 31, 2005 and the related consolidated statements of income, stockholders equity and comprehensive income and cash flows for the years ended December 31, 2005 and 2004, and each of the quarters in 2006 and 2005 to reflect additional stock-based compensation expense and related income tax effects for stock option awards granted since late 1995 and the financial statement impact for all subsequent periods. The Company s decision to restate was based on the results of a voluntary, independent investigation of its historical stock option granting practices and related accounting that was conducted by the Audit Committee of its Board of Directors.

On November 30, 2006, after the Company s management had conducted a preliminary, limited scope review of certain of the Company s stock option granting practices, the Company s Audit Committee (all of whom joined the Company s Board of Directors in 2003 or later) commenced a voluntary, independent investigation of the Company s historical stock option granting practices and related accounting during the period from January 1996 through December 2006. None of the members of the Audit Committee has ever served on the Compensation Committee of the Board of Directors. The Audit Committee s voluntary investigation of the Company s historical stock option granting practices was not in response to any governmental investigation, stockholder lawsuit, whistleblower complaint or inquiries from media organizations. The investigation was conducted with the assistance of independent outside legal counsel and outside forensic accounting consultants, and covered option grants made to all employees during the period from January 1996 through December 2006. Management further evaluated all grants (consisting of two employee new hire grants) in December 1995, which was the month the Company completed its initial public offering, and all grants to non-employee directors. The investigation and related review consisted of approximately 191 grant dates (representing over 27,000 individual option grants and 108.7 million stock options).

As a result of the Audit Committee s investigation and management s review, which has been completed, the Company has determined that, pursuant to Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, the accounting measurement date for certain stock option grants awarded during the December 1995 through December 2006 period differed from the measurement dates previously used for such stock option awards. Accordingly, the Company has applied revised measurement dates for financial accounting purposes to those option grants and the Company has revised its accounting for such awards. Most of the grants for which the Company has determined that incorrect measurement dates were used for financial accounting purposes were granted in the December 1995 to November 2003 time frame. The additional compensation expense resulting from options granted after 2003 was not material to any subsequent interim or annual financial statement period.

After completion of its investigation, the Audit Committee concluded that from 1996 until mid-1998, the Company likely selected grant dates retrospectively for many stock options granted to employees and executives. In addition, the required granting actions for many of these grants were not completed on the original measurement date. The Audit Committee found that none of the Company's current executives were responsible for retrospective selection of grant dates during this period.

From mid-1998 to November 2003, the accounting errors corrected in the restatement were caused mainly by the fact that required granting actions were not complete on the date of grant. The approval of the Compensation Committee was a required granting action and the process of obtaining approvals was generally not completed until after the grant date. For some grants after mid-1998, the Company also had not finalized the recipients and amounts of these options on the grant date.

From November 2003 through December 2006, the Company made significant changes in its stock option granting practices, processes and controls. These changes included a delegation of authority by the Compensation Committee to the Company s Chief Executive Officer and Chief Financial Officer to grant options to employees of the Company who are not subject to Section 16 of the Securities Exchange Act of 1934, as amended, and whose compensation is not subject to Section 162(m) of the Internal Revenue Code of 1986, as amended, and subject to certain parameters. Grants to such officers and other grants outside of the delegation parameters continued to require Compensation Committee approval but the delegation of authority significantly reduced the number of grants that required Compensation Committee approval. After November 2003, the accounting errors corrected in the restatement were caused mainly by the fact that the required granting actions (primarily Compensation Committee approval) were not complete on the date of the grant. As such, these errors were similar in nature to the errors requiring measurement date revisions in the 1996 to November 2003 period However, there was a significant decrease in the number of revised measurement dates during this period because of the changes in granting practices and reduction in the number of grants requiring Compensation Committee approval. The last grant with a revised measurement date was in March 2005.

Table of Contents

After completion of its investigation, the Audit Committee concluded that there was no intentional wrongdoing by any current executive of the Company in connection with the Company's stock option grants and procedures during the period under review (1996-2006).

The Company determined revised measurement dates for approximately 76.4 million options granted during the period December 1995 to March 2005. These revised measurement dates resulted in the Company recording $165.7 million in additional stock-based compensation expense on a pre-tax basis for the years 1995 through 2005. The additional stock-based compensation expense is net of forfeitures related to employee terminations. To determine revised measurement dates, management evaluated all of the available evidence. For those grants where the revised measurement date could not be determined with certainty, management applied judgment to determine what it believes to be the most appropriate measurement date in accordance with APB No. 25, and considered the amount of additional compensation expense that could result had different dates been selected. For a complete discussion of the judgments underlying the revised measurement dates, see Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this Annual Report on Form 10-K for the year ended December 31, 2006. The adjustments relating to these option grants did not affect the Company s previously reported revenue or cash and investments and relate exclusively to the Company s historical stock option granting practices. This restatement is more fully described in this Annual Report on Form 10-K for the year ended December 31, 2006 in Note 2 (titled Restatement of Consolidated Financial Statements) to the Consolidated Financial Statements in Part IV, Item 15, and in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7. Additional information on the restatement and related matters can be found in this Annual Report on Form 10-K for the year ended December 31, 2006 in:

Item 1A, Risk Factors,

Item 3, Legal Proceedings,

Item 5, Market for Registrant s Common Equity and Related Stockholder Matters, and Issuer Purchases Of Equity Securities,

Item 6, Selected Consolidated Financial Data,

Item 9A, Controls and Procedures, and

Note 17 to the Consolidated Financial Statements in Part IV, Item 15.

Previously filed Annual Reports on Forms 10-K and 10-K/A, Quarterly Reports on Form 10-Q and 10Q/A, and related opinions from the Company s independent registered public accounting firm, affected by the restatement have not been amended and should not be relied on.

Table of Contents

PART I

ITEM 1. *BUSINESS*

General

Citrix Systems, Inc., is a Delaware corporation founded on April 17, 1989. We design, develop and market technology solutions that allow applications to be delivered, supported, and shared on-demand with high performance, enhanced security, and improved total cost of ownership, or TCO. We market and license our products through multiple channels such as value-added resellers, or VARs, channel distributors, system integrators, or SIs, independent software vendors, or ISVs, our Websites and original equipment manufacturers.

Business Overview

Our goal is to enable a world where virtually anyone can work from virtually anywhere. In our drive to achieve our vision, we have been an innovator in the information technology, or IT, industry for more than a decade, since the completion of our initial public offering in December 1995.

Our three main waves of innovation have had a significant impact on the IT industry:

- Our first wave of innovation, in the mid-1990s, enabled the virtualization of the Windows desktop with our WinFrame product®. This in turn enabled thin-client computing.

- Our second wave of innovation, from the late 1990s to the early 2000s, focused on bringing the advantages of application virtualization and IT centralization to businesses with our MetaFrame® line of presentation server products. When an application is virtualized, the business logic of the application runs on a central server, and only screen pixels, keystrokes, and mouse movements not actual data are transmitted via an encrypted channel to the user s computer. Keeping applications under the centralized control of IT administrators enhances data security and reduces the costs of managing separate clients and applications on every user s desktop. Through our application virtualization solutions, we became a market leader in server-based computing.

- Our third wave of innovation is ongoing, focusing on a unique and holistic approach to solving application delivery problems, and equipping business to change on-demand. Since 2002, we have transformed Citrix from a company with one product line, to one that offers a broad portfolio of solutions that make people more productive through on-demand access to applications from virtually anywhere.

Today, we offer multiple products addressing a wide range of customer needs in a single market consisting of the design, development, marketing, sales and support of our Application Delivery Infrastructure products and services for applications and online services, and we are addressing a wide range of customer needs within this market with our products. These products include solutions for application virtualization, Web application optimization, application performance monitoring, branch office application delivery and wide area network, or WAN, optimization, virtual desktop delivery, secure sockets layers/virtual private network, or SSL/VPN, gateways, on-demand assistance, online collaboration and Internet Protocol, or IP, telephony. During this period, our revenues have grown from $527.4 million in 2002 to $1.13 billion in 2006.

Products

Our Application Delivery Infrastructure products are designed to offer comprehensive solutions across all dimensions of application delivery. Application delivery is an increasingly strategic problem that requires complete line-of-sight for each application. Desktops, Web-based applications and Windows-based applications each require a different set of technologies for optimal delivery and line-of-sight control. We package and market complete application delivery solutions, and we organized our products into five principal product groupings Application Virtualization, Application Networking, Management Systems, Online Services, and Advanced Solutions in order to maintain and enhance our technology in each area. This overview provides a discussion of each product and product grouping.

Application Virtualization

Application Virtualization is focused on developing and marketing technologies, solutions and products, for virtualizing applications and Windows-based desktops. Our Application Virtualization products include:

Presentation Server is a widely-deployed application virtualization solution that runs the business logic of applications on a central server, transmitting only screen pixels, keystrokes, and mouse movements no actual data via an encrypted

1

channel to users computers. Keeping applications under the centralized control of IT administrators enhances data security and reduces the costs of managing separate clients and applications on every user s desktop. Presentation Server runs on virtually any platform, from Microsoft® Windows Server 2003 x64 Edition to Windows Server 2003, Windows® 2000 Server and UNIX®.

Password Manager is a secure, efficient, and easy-to-deploy enterprise single sign-on solution for accessing password-protected Windows, Web and host-based applications. Users authenticate once with a single password, and Password Manager automatically completes the login process as it logs onto password-protected enterprise resources, enforces password policies, monitors password-related events, and automates end-user tasks even password changes.

Access Essentials is a secure remote access product with simple centralized management of information resources for organizations with up to 75 users. This relatively cost-effective software turns a Windows Server into the secure access point for client-server applications, files and internal Websites, and quickly delivers on-demand access to users at a convenient location. Access Essentials both enables access and controls it, with wizard-driven installation and operation.

Access Suite is a powerful enterprise solution for providing secure, on-demand access to enterprise resources from anywhere, with virtually any device, over virtually any network. The Access Suite combines Presentation Server , Access Gateway and Password Manager to create a ready, secure and easy-to-use connection to information whether data or voice. It is secure by design, centralizes access, provides a robust and resilient foundation for business, and automatically adjusts to dynamic access scenarios.

Application Networking

Application Networking is focused on developing and marketing technologies, solutions and products to optimize, deliver and secure Web-based applications and WANs, and provide single point of access to applications and protocols. Our Application Networking products include:

NetScaler® Application Switch is a Web application optimization delivery and traffic management product. The NetScaler® Application Switch is a comprehensive network system that combines state-of-the-art application acceleration, layer 4-7 traffic management, SSL acceleration and robust application security into a single, tightly-integrated solution. In addition to high-speed load balancing and content switching, the Application Switch accelerates delivery of Web applications by leveraging advanced acceleration technologies, including data compression, static and dynamic content caching, SSL acceleration and numerous network optimizations. Deployed in front of application servers to accelerate performance, the Application Switch significantly reduces the processing overhead on application and database servers.

NetScaler® Application Accelerator is an integrated network appliance that delivers industry-leading application acceleration, SSL acceleration and network-layer denial of service attack protection. Improving end-user performance for all Web applications, the Application Accelerator is deployable into most existing network infrastructure, interoperating with third-party load balancers to immediately accelerate Web application performance. It is one of only a few application delivery solutions built on a high-performance architecture and integrating a comprehensive set of advanced acceleration technologies, including SSL acceleration, static and dynamic content caching, hypertext transfer protocol, or HTTP, compression and multi-protocol compression. In addition, it can be upgraded to provide secure, accelerated SSL/VPN access to remote users.

Application Firewall protects Web-based application from application-layer attacks that cannot be detected by traditional security products. This protection is critical because Web applications increasingly provide direct access to some of the most sensitive and valuable data in any enterprise, including financial records, credit card numbers and customer identity information, making them especially attractive targets for hackers.

Access Gateway is a line of universal SSL/VPN appliances that provide a secure, always-on, single point-of-access to all applications and protocols, including multimedia and Voice over Internet Protocol, or VoIP. The Access Gateway product line has all of the advantages of IPSec and SSL/VPNs, without their costly and cumbersome implementation and management. Access Gateway includes technology that gives administrators fine-grained control over what actions users can take with the applications they access such as view, edit, save or print based on who they are, where they are located and what kind of device they are using.

Table of Contents

WANScaler is a branch office application delivery and WAN optimization solution that improves the performance of applications delivered to branch office users.

Management Systems

Management Systems is focused on developing and marketing technologies, solutions and products to monitor the performance of applications. Our Management Systems products include:

EdgeSight for Endpoints is an agent-based monitoring solution that provides continuous visibility from the end-user perspective to the performance of virtually any application.

EdgeSight for Presentation Server is an agent-based monitoring solution that provides continuous visibility from the end-user perspective to the performance of applications delivered by Presentation Server.

Online Services

Online Services is focused on developing and marketing Web-based access, support and collaboration software and services.

GoToMyPC® is an online, managed service that provides secure, remote access to Windows® PC desktops from virtually any Internet-connected computer. GoToMyPC, which sets up easily with a secure encrypted connection, enables individuals to remotely use any resources hosted on their desktop just as though they were sitting in front of their PC. GoToMyPC® Pro, tailored for the needs of professionals, and small office and professional teams, supports up to 20 PCs, rolls out secure remote access for multiple users in minutes, and features an administration Website where managers can add, suspend and delete users and run usage reports.

GoToMeeting® is an online, easy-to-use, secure and cost-effective solution for online meetings, training sessions and collaborative gatherings. GoToMeeting allows a user with a PC and an Internet browser to easily host, attend or participate in an online meeting or session without significant training. GoToMeeting features advanced secure communication architecture that uses industry-standard SSL and meets U.S. government standards. The service offers flat-fee pricing for any number of meetings of any length, for up to 10 attendees per meeting. We also offer GoToMeeting Corporate which supports five or more organizers and 25 to 200 attendees per meeting, and features advanced secure communication architecture that uses industry-standard SSL and meets U.S. government standards.

GoToAssist® is a leading, online, remote technical-support solution that enables organizations to provide secure, on-demand support over the Internet. GoToAssist enables support staff to view and control the desktop of a user, requires no client software or additional resources, works automatically and securely through virtually every firewall, even over dial-up connections, and integrates into existing infrastructure.

GoToWebinar is a simple and affordable solution to conduct online events, such as large sales presentations and marketing events over the Internet. GoToWebinar has a capacity to scale to 1,000 attendees per event and includes such features as full-service registration with real-time reports, customized branding of Webinar materials, automated e-mail templates, free integrated voice conferencing or toll-free service, attendee polling and survey capability, Webinar dashboard to monitor audiences, and easy controls for quickly changing presenters.

Advanced Solutions

Advanced Solutions is focused on VoIP and IP telephony solutions and developing unique solutions using new technology and capabilities from across our company. Our Advanced Solutions products include:

Application Gateway is an appliance that enables organizations to deliver applications to the screens and speakers of IP phones and wireless devices. In addition, the Application Gateway can transform existing Web-based applications such as time clocks, email, sales force automation, school attendance, inventory look-up and patient records for wireless devices and the screens of IP phones. Customized via the visual development toolkit, the Design Studio, and delivered to the device screen via the Application Gateway, transformed applications appear as though they were custom-developed for the IP telephone or wireless device without changes to the underlying Web-based applications.

Table of Contents

Voice Office is a suite of packaged, converged IP telephony applications that simplify user interaction, reduce user training and enhance organizational communications for businesses with Cisco and Nortel IP telephones. Voice Office includes Express Directory, Visual Voicemail, Zone Paging, Broadcast Server and Click-to-Call using Smart Agent, all accessible from the screens and speakers of these IP telephones. With no development work, IT departments can use Voice Office to provide their users with simplified and faster access to the organization s existing IP telephony applications and make telephony features easier for them to use.

Services

We provide a portfolio of services designed to allow our customers and entities with which we have a technology relationship to maximize the value of our application delivery solutions. These services are available as a feature of our business-development program and are available for additional fees to customers.

Consulting. The objective of our consulting services is to help ensure the successful implementation of our Application Delivery solutions. Tested methodologies, certified professionals and best practices developed from real-world experience allow our consulting to provide guidance and support to partners and customers to maximize the effectiveness of their access infrastructure implementations.

Technical Support Services. To accommodate the unique ongoing support needs of customers, our technical support services are specifically designed to address the variety of challenges facing access infrastructure environments. We offer five support-level options, global coverage and personalized relationship management.

Product Training & Certification. A series of courses are designed to allow customers and channel members to learn new skills and effective strategies to help plan, implement and administer our products. Students may attend courses at one of approximately 250 Citrix Authorized Learning Centers , or CALCs, worldwide.

Except for the Web-based desktop access services offered by our Citrix Online Division, our other service activities are related to post-sale technical support, pre- and post-sale consulting and product training services. Post-sale technical support is offered through Citrix-operated support centers located in the United States, Ireland, Tokyo, Hong Kong and Australia. In most cases, we provide technical advice to channel distributors and entities with which we have a technology relationship, who act as the first line of technical assistance for end-users. In some cases, end-users can also choose from a Citrix-delivered fee-based support program ranging from one-time incident charges to an enterprise-level support agreement covering multiple sites and servers. In addition, we also provide free technical advice through online support systems, including our Web-based Knowledge Center. For pre- and post-sale consulting, Citrix Consulting, a consulting services organization, provides both exploratory and fee-based consulting services. These services include on-site systems design and implementation services targeted primarily at enterprise-level clients with complex IT environments. Citrix Consulting is also responsible for the development of best practice knowledge that is disseminated to businesses with which we have a business relationship 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. Citrix product training is available to businesses, end-users and partners through our CALC program and eLearning. CALCs are staffed with instructors that have been certified by us and teach their students using Citrix-developed courseware. Approximately 250 of the world s leading IT training organizations are CALCs. eLearning is available through both CALCs and from our Website.

Technology

Our products are based on a full range of industry-standard technologies. In addition, certain of our products are also based on our proprietary technologies including our Independent Computing Architecture, or ICA, protocol.

The ICA® protocol is a core technology in application virtualization that allows an application s graphical end-user interface to be displayed on virtually any client device while the application logic is executed on a central server. Centralizing application processing on the server enables centralized management of applications, end-users, servers, licenses and other system components for greater efficiency and lower cost.

Our ICA® technology also minimizes the amount of data traveling across an end-user s network by limiting the data transported to and from the client device to encrypted screen refreshes, keystrokes and mouse clicks. This enhances access security, improves application performance, lowers bandwidth consumption, and lowers the TCO for deploying and accessing the latest, most powerful applications and information.

Our products are also based on the Extensible Markup Language, or XML. Leveraging our XML technology assures open systems interaction for customers regardless of data source or platform. By supporting XML, which is an important standard for Web services-based applications, we help customers get from the client/server world of today to the Web services environments of tomorrow.

Table of Contents

Customers

We take a unique and holistic approach to solving application delivery problems, and we equip businesses to change on-demand. We do this through an expansive product portfolio that brings enormous benefits and cost savings to our customers. The strategic value that we offer brings multiple buyers to the table, each with a different perspective on the problems we solve. We believe that currently, the four primary IT buyers involved in decision-making related to application delivery solutions are:

- Strategic IT Executives - the senior executives, including chief information officers, chief technology officers and vice presidents of infrastructure, who have responsibility for ensuring all applications are delivered with the best performance, security and cost-savings.

- Network Architects (Web application line-of-sight) the people and groups responsible for delivering Web-based applications who have primary responsibility for the WAN infrastructure for all applications.

- IT Infrastructure Managers (Windows application line-of-sight) the people and groups responsible for delivering Windows-based applications.

- Desktop Operations Managers (Windows Desktop line-of-sight) the people and groups responsible for managing Windows Desktop environments.

In addition to these four primary IT buyers, we market and sell web-based remote access solutions and web-based collaboration solutions to consumers, prosumers and small businesses through our Citrix Online Division. The Online Division also markets and sells web-based remote support systems to corporate help desks.

We offer perpetual software licenses for our Application Virtualization, Application Networking, Management Systems and Advanced Solutions, along with annual subscriptions for software maintenance, technical support and online services. Perpetual licenses allow our customers to use the version of software initially purchased into perpetuity while software maintenance gives them the right to upgrade to software versions if any updates are delivered during the maintenance term. Perpetual license software products come in shrink-wrap and electronic-based forms to meet customer form factor requirements. Our Online Services products can be accessed over any Internet connection during the subscription period. Hardware appliances come pre-loaded with software for which customers can purchase perpetual licenses.

Technology Relationships

We have entered into a number of technology relationships to develop customer markets for our products for distributed Windows and non-Windows applications and to accelerate the development of our existing and future product lines.

Microsoft. Since our inception, we have had a number of license agreements with Microsoft, including licenses relating to Microsoft OS/2, Windows 3.x, Windows for Workgroups, Windows NT®, Windows CE and Internet Explorer. These agreements have provided us with access to certain Microsoft source and object code, technical support and other materials. We also have licensed our multi-user Windows NT extensions to Microsoft for inclusion in Microsoft s NT Terminal Server, Windows 2000 Server and successor products.

In December 2004, we entered into a technology collaboration agreement with Microsoft to further enhance the overall extensibility of Windows® Terminal Server. In conjunction with the technology collaboration agreement, we and Microsoft entered into a patent cross license and source code licensing agreements to renew our access to source code for current versions of Microsoft Windows Server that had previously been provided to us pursuant to the agreement between Microsoft and us dated May 2002. The technology collaboration agreement also provides us access to the source code for the forthcoming Microsoft Windows Server 2008, formerly code named Longhorn , and in September 2007 we signed a source code license with Microsoft for the general release version of Windows Server 2008. The technology collaboration agreement has a five-year term which expires in December 2009. The technology collaboration, patent cross license and source code licensing agreements do not provide for payments to or from Microsoft.

There can be no assurances that our agreements with Microsoft will be extended or renewed by Microsoft upon their respective expirations or that, if renewed or extended, such agreements will be on terms favorable to us. See Risk Factors.

Additional Relationships. As of December 31, 2006, we had entered into approximately 140 ICA license agreements. Currently, numerous devices incorporate Citrix ICA, including Windows CE devices, Macintosh clients, Linux Terminals, and other information appliances, such as wireless phones and other handheld devices. ICA licensees include Wyse Technologies, Hewlett-Packard Company, Neoware Systems, Inc., Fujitsu Limited, Philips Speech Recognition Systems and SAP AG, among others.

In addition, the Citrix accessPARTNER network, including Citrix Alliance Partners , which are a coalition of industry-leading companies from across the IT spectrum who work with us to design and market complementary solutions for us and the customers of our Citrix Alliance Partners. Our existing alliance and channel programs, including the Citrix Business Alliance, are now included as part of the Citrix accessPARTNER network. For further information on the Citrix accessPARTNER network see Sales, Marketing and Support.

Research and Development

We focus our research and development efforts on developing new products and core technologies for our application delivery infrastructure market and further enhancing the functionality, reliability, performance and flexibility of existing products. In 2004, we acquired additional expertise in Web-based services, telephony, VoIP and secure access appliances. In 2005, we acquired additional expertise in Web application optimization, Transmission Control Protocol, or TCP, multiplexing, multi-protocol compression, SSL acceleration, application traffic management, dynamic caching, and Web application firewall technologies. In 2006, we acquired additional expertise in tools that monitor the end-user experience, WAN optimization and acceleration. We solicit extensive feedback concerning product development from customers, both directly from and indirectly through our channel distributors.

We believe that our software development team and core technologies represent a significant competitive advantage for us. Included in the software development team is a group focused on research activities that include prototyping ways to integrate emerging technologies and standards into our product offerings, such as emerging Web services technologies and Microsoft s newest Windows Server technologies. Many groups within the software development team have expertise in XML-based software development, integration of acquired technology, multi-tier Web-based application development and deployment, SSL secure access and building software as a service. We maintain a team working on-site at Microsoft focused on enhancing and adding value to the next generation of Microsoft Windows Server products and operating systems. We incurred research and development expenses of approximately $155.3 million in 2006, $108.8 million in 2005 and $86.7 million in 2004.

Sales, Marketing and Support

We market and license our products and services primarily through multiple channels worldwide, including VARs, channel distributors, SIs and ISVs managed by our worldwide sales force. We provide training and certification to integrators, VARs and consultants for a full-range of Citrix-based application delivery solutions and services through our Citrix accessPARTNER network. In addition, our Citrix Online Division provides software as a service through direct sales and our Websites.

In 2006, we particularly focused our efforts on increasing the productivity of our existing partners, integrating partners from our recent acquisitions into our program, and building capacity through recruitment of new partners to sell and implement our expanding product portfolio. We continue to see success with our innovative channel incentive program, Citrix Advisor Rewards. The Citrix Advisor Rewards program is an innovative influencer program that rewards our partners for registering projects and providing value-added selling even if they don't fulfill the product. This has helped limit channel conflict and increase partner loyalty to us. We regularly take actions to improve the effectiveness of our partner programs, and to strengthen our channel relationships, including managing non-performing partners, adding new partners with expertise in selling into new markets, and forming additional relationships with global and regional SIs and ISVs. SIs and ISVs are becoming a more central part of our strategy in the large enterprise and government markets. The SI program includes members such as Accenture Ltd., Atos Origin, Computer Sciences Corporation, Electronic Data Systems Corporation, Fujitsu-Siemens Computers GmbH, Hewlett-Packard Company, IBM Global Services, Infosys Technologies Limited, TATA Consultancy Services Limited and WiPro Technologies Limited, among others. The ISV program has a strong representation from targeted industry verticals such as healthcare, financial services and telecommunications. Members in the ISV program include Cerner Corporation, Epic Systems Corporation, ESRI, Hyperion Solutions Corporation, McKesson Corporation, Microsoft, Oracle Corporation, Sage Group plc, SAP AG and Siemens Medical Health Solutions, among many others.

Our sales and marketing organization actively supports our distributors and resellers. Our sales organization consists of field-based systems sales engineers and corporate sales professionals. Additional sales personnel, based in North America, Europe, Africa, Asia, Australia and South America, support these field personnel. See Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations and Note 13 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2006 for information regarding our segments. These additional sales personnel recruit prospective customers, provide technical advice with respect to our products and work closely with key distributors and resellers of our products. Over the last four years, we have grown our force of sales professionals that work closely with partners to sell to primary IT buyers, including Strategic IT Executives, Network Architects, IT Infrastructure Managers and Desktop Operations Managers to address the multiple selling and buying opportunities presented by our expanded product line. These and other account penetration efforts are part of our strategy to increase the usage of our application delivery products within our customer s IT organization.

Our marketing department provides training, sales event support, sales collateral, advertising, direct mail and public relations coverage to our indirect channels to aid in market development and in attracting new customers. In addition, marketing for our Online Services utilizes multiple venues including radio, television and online advertising.

The Citrix® accessPARTNER network, made up of over 6,700 members, includes three categories of partners: Citrix® Solution Advisor, Citrix® Alliance Partner, and Citrix Certified Education Professional. This network represents the knowledge, skills and experience of the entire spectrum of our partners around the world, and makes it easier for end customers to engage their services and benefit from their solutions. Equally important, the Citrix accessPARTNER network is designed to help partners build their business by sharing in opportunities for planning and implementing application delivery solutions that arise from mutual customers and complement the sale of their own products.

We provide most of our distributors with stock balancing and price protection rights. These transactions are estimated and provided for at the time of sale as a reduction of revenue. Stock balancing rights permit distributors to return products to us up to the forty-fifth day of the fiscal quarter, subject to ordering an equal dollar amount of our other products prior to the last day of the same fiscal quarter. We are not obligated to accept product returns from our distributors under any other conditions, unless the product item is defective in manufacture. Product items returned to us under the stock-balancing program must be in new, unused and unopened condition. Price protection rights require that we grant retroactive price adjustments for inventories of our products held by distributors or resellers if we lower our prices for such products. In the event that we decide to reduce our prices, we will establish a reserve to cover exposure to distributor inventory. We have not reduced and have no current plans to reduce the prices of our products for inventory currently held by distributors or resellers. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates and Note 3 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2006 for information regarding our revenue recognition policy.

Operations

We control all purchasing, inventory, scheduling, order processing and accounting functions related to our operations. For our Application Virtualization products, production, warehousing and shipping are performed internally in the United States and by independent contractors on a purchase order basis in Ireland, depending upon the customer s geographic market. Master software CD-ROMs, 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 CD-ROMs, print documentation and package and assemble products to our specifications. Production, final test, warehousing and shipping for our Application Networking products, including our NetScaler products and Access Gateway products are primarily performed by a third-party contract manufacturer. For our WANScaler products, we assemble, final test, warehouse and ship the final products to our customers.

For our Application Virtualization products, internal manufacturing capabilities and independent contractors provide a redundant source of manufacture and assembly. For our Application Networking products, including our NetScaler, Access Gateway and WANScaler products internal manufacturing capabilities and independent contractors provide us with the flexibility needed to meet our customer product and delivery requirements. To date, we have not experienced any material difficulties or delays in the manufacture and assembly of our products.

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

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 increases in fourth quarter revenue. 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. This trend continued in the first quarter of 2007. In addition, our European operations generally provide 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.

Table of Contents

Competition

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

Existing or new products and services that provide alternatives to our products and services, including those relating to application virtualization, Web application optimization, application performance monitoring, branch office application delivery, WAN optimization, virtual desktop delivery, SSL/VPN, gateways, on-demand assistance, online collaboration and IP telephony, can materially impact our ability to compete in these markets. Our current competitors in these markets include Adobe Systems, Inc., Cisco Systems, Inc., EMC Corporation , F5 Networks, Inc., Hewlett-Packard Company, IBM Corporation, Juniper Networks, Inc., Microsoft Corporation, Oracle Corporation, Riverbed Technology, Inc., Sun Microsystems, Inc., VMware, Inc. and WebEx Communications, Inc.

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

Proprietary Technology

Our success is dependent upon certain proprietary technologies and core intellectual property. We have been awarded a number of domestic and foreign patents and have a number of 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 trademarks or registered trademarks in the United States and other countries, including Citrix®, Citrix Access Suite , Citrix Presentation Server , Citrix Access Gateway , Citrix Password Manager , Citrix Access Essentials , GoToMeeting®, GoToAssist®, GoToMyPC®, GoToWebinar , ICA®, NetScaler®, WanScaler , the Access button and Citrix SmoothRoaming are trademarks of Citrix Systems, Inc. and/or one or more of its subsidiaries, and may be registered in the United States Patent and Trademark Office and in other countries. All other trademarks and registered trademarks are the property of their respective owners. While our competitive position could be affected by our ability to protect our proprietary information, we believe that because of the rapid pace of technological change in the industry, factors such as the technical expertise, knowledge and innovative skill of our management and technical personnel, our technology relationships, name recognition, the timeliness and quality of support services provided by us and our ability to rapidly develop, enhance and market software products could be more significant in maintaining our competitive position. See Risk Factors.

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 on Form DEF 14A 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, 2006.

Employees

As of December 31, 2006, we had 3,742 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.

Table of Contents

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, 2006, and in the documents incorporated by reference into this Annual Report on Form 10-K for the year ended December 31, 2006, that are not historical facts, including, but not limited to statements concerning new products, product development and offerings, Application Networking, Application Virtualization, Subscription Advantage, Presentation Server, NetScaler, Access Suite and Access Gateway, historical stock option granting practices, cash and non-cash charges, contingent liabilities related to Internal Revenue Code Section 409A, product and price competition, Citrix Online Division, competition and strategy, customer diversification, product price and inventory, contingent consideration payments, deferred revenues, economic and market conditions, potential government regulation, seasonal factors, natural disasters, stock-based compensation, licensing and subscription renewal programs, international operations and expansion, revenue recognition, profits, growth of revenues, composition of revenues, cost of revenues, operating expenses, sales, marketing and support expenses, general and administrative expenses, research and development expenses, valuations of investments and derivative instruments, technology relationships, reinvestment or repatriation of foreign earnings, gross margins, amortization expense and intangible assets, interest income, interest expense, impairment charges, anticipated operating and capital expenditure requirements, cash inflows, contractual obligations, our Credit Facility and Term Loan, in-process research and development, advertising campaigns, tax rates and deductions, SFAS 123R, leasing and subleasing activities, acquisitions, and the closing of the XenSource acquisition, stock repurchases, investment transactions, liquidity, litigation matters, intellectual property matters, distribution channels, stock price, payment of dividends, Advisor Rewards Program, third party licenses, closing the acquisition of XenSource and potential debt or equity financings constitute forward-looking statements and are made under the safe harbor provisions of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are neither promises nor guarantees. Our actual results of operations and financial condition have varied and could in the future vary significantly from those stated in any forward-looking statements. The 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, 2006, in the documents incorporated by reference into this Annual Report on Form 10-K for the year ended December 31, 2006 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.

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

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

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

As a result of the review of our historical stock option granting practices and the associated restatements, we could not file our periodic reports with the Securities and Exchange Commission, or SEC, on time and, as a result, faced the possibility that our stock would be delisted from The Nasdaq Global Select Market. With the filing of this Annual Report on Form 10-K for the year ended December 31, 2006 and our Quarterly Reports on Form 10-Q for the three months ended March 31, 2007 and June 30, 2007, we believe we have returned to full compliance with SEC reporting requirements and Nasdaq listing requirements and expect that the

Table of Contents

Nasdaq delisting matter will be closed. If, however, the SEC has comments on this Annual Report on Form 10-K for the year ended December 31, 2006, our Quarterly Reports on Form 10-Q for the three months ended March 31, 2007 and June 30, 2007 or other reports that we have previously filed that require us to file amended reports, or if Nasdaq does not concur that we are in compliance with applicable listing requirements, we may be unable to maintain an effective listing of our stock on a national securities exchange. If this happens, the price of our common stock and the ability of our stockholders to trade in our stock could be adversely affected. In addition, we would be subject to a number of restrictions regarding the registration of our stock under federal securities laws, and we would not be able to issue stock options or other equity awards to our employees or allow them to exercise outstanding options, which could adversely affect our business and results of operations.

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

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

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

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

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

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

Table of Contents

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

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

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

Existing or new products and services that provide alternatives to our products and services, including those relating to application virtualization, Web application optimization, application performance monitoring, branch office application delivery and WAN optimization, virtual desktop delivery, secure sockets layers/virtual private network, gateways, on-demand assistance, online collaboration and IP telephony, can materially impact our ability to compete in these markets. Our current competitors in these markets include Adobe Systems, Inc., Cisco Systems, Inc, EMC Corporation, F5 Networks, Inc., Hewlett-Packard Company, IBM Corporation, Juniper Networks, Inc., Microsoft Corporation, Oracle Corporation, Riverbed Technology, Inc., Sun Microsystems, Inc., VMware and WebEx Communications, Inc.

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

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

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

- new competitive product releases and updates to existing products;
- termination of our product offerings and enhancements;
- potential market saturation;
- technological change;
- general economic conditions; or
- lack of success of entities with which we have a technology relationship.

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

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

The markets for our products and services are characterized by:

- rapid technological change;
- evolving industry standards;
- fluctuations in customer demand;
- changes in customer requirements; and
- frequent new product and service introductions and enhancements.

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

- delays in our introduction of new products and services;
- delays in market acceptance of new products and services or new releases of our current products and services; and
- our, or a competitor s, announcement of new product or service enhancements or technologies that could replace or shorten the life cycle of our existing product and service offerings.

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

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

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

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

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

Our success depends, in large part, upon the services of a number of key employees. Except for certain key employees of acquired businesses, we do not have long-term employment agreements with any of our key personnel. Any officer or employee can terminate his or her relationship with us at any time. The effective management of our growth, if any, could depend upon our ability to retain our highly skilled technical, managerial, finance and marketing personnel. If any of those employees leave, we will need to attract and retain replacements for them. We may also need to add key personnel in the future. The market for these qualified employees is competitive. We could find it difficult to successfully attract, assimilate or retain sufficiently qualified personnel in sufficient numbers. Furthermore, we may hire key personnel in connection with our future acquisitions; however, any of these employees will be able to terminate his or her relationship with us at any time. If we cannot retain and add the necessary staff and resources for these acquired businesses, our ability to develop acquired products, markets and customers could be adversely affected. Also, we may need to hire additional personnel to develop new products, product enhancements and technologies. If we cannot add the necessary staff and resources, our ability to develop future enhancements and features to our existing or future products could be delayed. Any delays could have a material adverse effect on our business, results of operations and financial condition.

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

Historically, the scope of our operations, the number of our employees and the geographic area of our operations and our revenue have grown rapidly. In addition, we have acquired both domestic and international companies. This growth and the assimilation of acquired operations and their employees could continue to place a significant strain on our managerial, operational and financial resources. To manage our current growth and any future growth effectively, we need to continue to implement and improve

Table of Contents

additional management and financial systems and controls. We may not be able to manage the current scope of our operations or future growth effectively and still exploit market opportunities for our products and services in a timely and cost-effective way. Our future operating results could also depend on our ability to manage:

- our expanding product lines;
- our marketing and sales organizations; and
- our client support organization as installations of our products increase.

In addition, to the extent our revenue grows, if at all, we believe that our cost of revenues and certain operating expenses could also increase. We believe that we could incur additional costs, including royalties, as we develop, license or buy new technologies or enhancements to our existing products and services. These added costs and royalties could increase our cost of revenues and operating expenses and lower our gross margins. For example, due to our 2005 Acquisitions and 2006 Acquisitions and the anticipated growth of the acquired companies, we currently expect that our future revenue will include a greater level of revenue from appliance sales as compared to our historical level of appliance sales, which we expect will reduce our gross margins from their historical levels. Furthermore, as our income from the 2005 Acquisitions and 2006 Acquisitions increases, we expect that our effective tax rate may increase due to the taxable income from these acquisitions being earned primarily in our geographic locations that are taxed at a higher rate. However, we cannot currently quantify the costs for such transactions that have not yet occurred or of these developing trends in our business. In addition, we may need to use a substantial portion of our cash and investments or issue additional shares of our common stock to fund these additional costs.

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

We have a significant amount of goodwill and other intangible assets, such as product and core technology, related to our acquisitions. We expect to record significant additional goodwill and other intangible asset amounts in connection with the acquisition of XenSource when the acquisition is consummated. We do not amortize goodwill and intangible assets that are deemed to have indefinite lives. However, we do amortize certain product and core technologies, trademarks, patents and other intangibles. We periodically evaluate our intangible assets, including goodwill, for impairment at the reporting unit level (operating segment). As of December 31, 2006 we had $631.7 million of goodwill. We review for impairment annually, or sooner if events or changes in circumstances indicate that the carrying amount could exceed fair value. Fair values are based on discounted cash flows using a discount rate determined by our management to be consistent with industry discount rates and the risks inherent in our current business model. Due to uncertain market conditions and potential changes in our strategy and product portfolio, it is possible that the forecasts we use to support our goodwill and other intangible assets could change in the future, which could result in non-cash charges that would adversely affect our results of operations and financial condition.

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

We recorded approximately $371.3 million of goodwill and intangible assets in connection with our 2005 Acquisitions and our 2006 Acquisitions. If the actual revenues and operating profit attributable to acquired intangible assets are less than the projections we used to initially value these intangible assets when we acquired them, then these intangible assets may be deemed to be impaired. If we determine that any of the goodwill or other intangible assets associated with our recent acquisitions are impaired, then we would be required to reduce the value of those assets or to write them off completely by taking a related charge to earnings. If we are required to write down or write off all or a portion of those assets, or if financial analysts or investors believe we may need to take such action in the future, our stock price and operating results could be materially adversely affected.

At December 31, 2006, we had $130.5 million, net, of unamortized identified intangibles, which include core and product technology we purchased in acquisitions or under third party licenses. We currently market the technologies acquired in our acquisitions through our Citrix Online Division products, Application Networking products, Advanced Solutions products and Management Systems products. However, our channel distributors and entities with which we have technology relationships, customers or prospective customers may not purchase or widely accept our new appliances and continue to accept our Citrix Online Division products. If we fail to complete the development of our anticipated future product and service offerings, including product offerings acquired through our acquisitions, if we fail to complete them in a timely manner, or if we are unsuccessful in selling any new lines of products, appliances and services, we could determine that the value of the purchased technology is impaired in whole or in part and take a charge to earnings. We could also incur additional charges in later periods to reflect costs associated with completing those projects that could not be completed in a timely manner. An impairment charge could have a material adverse effect on our results of operations. If the actual revenues and operating profit attributable to acquired product and core technologies are less than the projections we used to initially value product and core technologies when we acquired it, such intangible assets may be deemed to be impaired. If we determine that any of our intangible assets are impaired, we would be required to take a related charge to earnings that could have a material adverse effect on our results of operations.

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

The demand for our products and services depends substantially upon the general demand for business-related computer appliances and software, which fluctuates based on numerous factors, including capital spending levels, the spending levels and growth of our current and prospective customers and general economic conditions. Fluctuations in the demand for our products and services could have a material adverse effect on our business, results of operations and financial condition. In the past, adverse

Table of Contents

economic conditions decreased demand for our products and negatively impacted our financial results. Future economic projections for the information technology sector are uncertain. If an uncertain information technology spending environment persists, it could negatively impact our business, results of operations and financial condition.

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

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

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

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

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

We anticipate that sales of our Subscription Advantage product will continue to constitute a substantial portion of our License Updates revenue. Our ability to continue to generate both recognized and deferred revenue from our Subscription Advantage product will depend on our customers continuing to perceive value in automatic delivery of our software upgrades and enhancements. A decrease in demand for our Subscription Advantage product could occur as a result of a decrease in demand for our Application Virtualization, Application Networking and Management Systems products. If our customers do not continue to purchase our Subscription Advantage product, our License Updates revenue and deferred revenue would decrease significantly and our results of operations and financial condition would be adversely affected.

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

We conduct significant sales and customer support, development and engineering operations in countries outside of the United States including, as a result of our acquisition of NetScaler, product development in Bangalore, India. During the twelve months ended December 31, 2006, we derived approximately 47.4% of our revenues from sales outside the United States. Our continued growth and profitability could require us to further expand our international operations. To successfully expand international sales, we must establish additional foreign operations, hire additional personnel and recruit additional international resellers. Our international operations are subject to a variety of risks, which could cause fluctuations in the results of our international operations. These risks include:

- compliance with foreign regulatory and market requirements;
- variability of foreign economic, political and labor conditions;

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

longer accounts receivable payment cycles;

- potentially adverse tax consequences;

- difficulties in protecting intellectual property;

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

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

Our results of operations are also subject to fluctuations in foreign currency exchange rates. In order to minimize the impact on our operating results, we generally initiate our hedging of currency exchange risks one year in advance of anticipated foreign currency expenses. When the dollar is weak foreign currency denominated expenses will be higher. As a result of our hedging practice these higher expenses will be partially offset by the gain in our hedging contracts. If the dollar is strong, foreign currency denominated expenses will be lower. These lower expenses will in turn be partially offset by the loss in our hedging contracts. There is a risk that there will be fluctuations in foreign currency exchange rates beyond the one year timeframe for which we hedge our risk. In 2006 our operating expenses were generally lower due to a stronger dollar compared to 2005 during which our operating expenses were higher due to the dollar being generally weaker.

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

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

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

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

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

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

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

Our business depends on strategic and technology relationships. We cannot assure you that those relationships will continue in the future. In addition to our relationship with Microsoft, we rely on strategic or technology relationships with such companies as Dell Inc., Hewlett-Packard Company, International Business Machines Corporation, SAP and others. We depend on the entities with which we have strategic or technology relationships to successfully test our products, to incorporate our technology into their

Table of Contents

products and to market and sell those products. We cannot assure you that we will be able to maintain our current strategic and technology relationships or to develop additional strategic and technology relationships. If any entities in which we have a strategic or technology relationship are unable to incorporate our technology into their products or to market or sell those products, our business, results of operations and financial condition could be materially adversely affected.

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

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

- undetected errors or unauthorized use of another person s code in the third party s software;
- disagreement over the scope of the license and other key terms, such as royalties payable;
- infringement actions brought by third party licensees; and
- termination or expiration of the license.

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

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

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

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

In order to successfully attract new customer segments to our Presentation Server products and expand our existing relationships with enterprise customers, we must reach and retain small-sized customers and small project initiatives within our larger enterprise customers. We have begun a marketing initiative to reach these customers that includes extending our Advisor Rewards program to include a broader range of license types. In 2005, we also introduced a new product, Access Essentials™, specifically developed, packaged and priced to bring secure application virtualization and efficient centralized management of information resources to small and mid-sized businesses. We cannot guarantee that our small-sized customer marketing initiative or new product will be successful. Our failure to attract and retain small sized customers and small project initiatives within our larger enterprise customers could have a material adverse effect on our business, results of operations and financial condition. Additionally, as we attempt to attract and retain small sized customers and small project initiatives within our larger enterprise customers, we may need to increase corporate branding and broaden our marketing activities, which could increase our operating expenses. These efforts may not proportionally increase our operating revenues and could reduce our profits.

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

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

Table of Contents

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

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

- we may have difficulty locating and qualifying alternative suppliers for our sole-source supplies;
- our suppliers, especially new suppliers, may make errors in manufacturing components that could negatively affect the efficacy of our products or cause delays in shipment;
- our suppliers manufacture products for a range of customers, and fluctuations in demand for the products these suppliers manufacture for others may affect their ability to deliver components and products to us in a timely manner; and
- our suppliers may encounter financial hardships unrelated to our demand for components, which could inhibit their ability to fulfill our orders and meet our requirements.

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

- actual or anticipated variations in operating and financial results;
- analyst reports or recommendations;
- changes in interest rates; and
- other events or factors, many of which are beyond our control.

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

Table of Contents

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

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards, or SFAS, No. 123R, *Share-Based Payment,* a complex accounting standard that requires companies to expense the fair value of employee stock options and similar awards. As a result of adopting the provisions of Statement of Financial Accounting Standards, or SFAS, No. 123R, our income before taxes and net income for 2006 are $44.9 million and $33.8 million lower, respectively, than if we had continued to account for stock-based compensation under APB Opinion No. 25. The application of SFAS No. 123R requires significant judgment and the use of estimates, particularly surrounding stock price volatility, option forfeiture rates and expected option lives, to build a model for appropriately valuing share-based compensation. There is little experience or guidance with respect to developing these assumptions and models. There is a risk that, as we and others gain experience with SFAS No. 123R or as a result of subsequent accounting guidelines, we could determine that the assumptions or model we used requires modification. Any such modification could result in significantly different charges in future periods and, potentially, could require us to correct the charges taken in prior periods. These modifications, as well as any such corrections of charges taken in a prior period could negatively affect our results of operations, stock price and our stock price volatility.

Our business is subject to seasonal fluctuations.

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

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

General economic and market conditions, and other factors outside our control including significant natural disasters, terrorist attacks or military actions, could adversely affect our business and impair the value of our investments. Any downturn in general economic conditions could result in a reduction in demand for our products and services and could harm our business. These conditions make it difficult for us, and our customers, to accurately forecast and plan future business activities and could have a material adverse effect on our business, financial condition and results of operations. In addition, an economic downturn could result in an impairment in the value of our investments requiring us to record losses related to such investments. Impairment in the value of these investments may disrupt our ongoing business and distract management. As of December 31, 2006 we had $441.9 million of short and long-term investments, including restricted investments, with various issuers and financial institutions. In many cases we do not attempt to reduce or eliminate our market exposure on these investments and could incur losses related to the impairment of these investments. Fluctuations in economic and market conditions could adversely affect the value of our investments, and we could lose some of our investment portfolio. A total loss of an investment could adversely affect our results of operations and financial condition. For further information on these investments, please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

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 2006 fiscal year that remain unresolved.

ITEM 2. *PROPERTIES*

We lease and sublease a total of approximately 888,221 square feet of office space in the United States, Canada and Latin America, 315,640 of which relates to our Americas segment and 105,425 of which relates to our Citrix Online Division. This includes approximately 467,156 square feet relating to our corporate headquarters located in Fort Lauderdale, Florida, approximately 294,465 square feet of office space in California, and approximately 126,600 square feet of office space in other locations in the United States, Canada and Latin America.

We lease and sublease a total of approximately 262,205 square feet of office space in various other facilities outside of North and South America, 162,440 of which relates to our Europe, the Middle East and Africa, or EMEA, segment and 99,765 of which relates to our Asia-Pacific segment. In addition, we own land and buildings in the United Kingdom with approximately 48,000 square feet of office space.

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 on commercially reasonable terms.

Table of Contents

ITEM 3. ***LEGAL PROCEEDINGS***

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

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

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

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

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

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

ITEM 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

None.

Table of Contents

PART II

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

Price Range of Common Stock and Dividend Policy

Our common stock is currently traded on The Nasdaq Global Select Market under the symbol CTXS. Due to the delayed filing of this and other periodic reports, we have not been in compliance with the listing requirements for that market. With the filing of this Annual Report on Form 10-K for the year ended December 31, 2006 and our Quarterly Reports on Form 10-Q for the three months ended March 31, 2007 and June 30, 2007, we believe we have returned to full compliance with SEC reporting requirements and Nasdaq s listing requirements. The following table sets forth the high and low closing prices for our common stock as reported on The Nasdaq Global Select Market for the periods indicated, as adjusted to the nearest cent. Such information reflects inter-dealer prices, without retail markup, markdown or commission and may not represent actual transactions.

	High	Low
Year Ended December 31, 2007:		
Third quarter (through August 30, 2007)	$ 37.65	$ 31.79
Second quarter	$ 34.61	$ 30.48
First quarter	$ 33.06	$ 26.83
Year Ended December 31, 2006:		
Fourth quarter	$ 35.39	$ 26.82
Third quarter	$ 40.29	$ 28.00
Second quarter	$ 45.16	$ 34.61
First quarter	$ 37.90	$ 29.24
Year Ended December 31, 2005:		
Fourth quarter	$ 29.24	$ 23.80
Third quarter	$ 25.41	$ 21.40
Second quarter	$ 25.37	$ 21.34
First quarter	$ 24.10	$ 21.07

On August 30, 2007, the last reported sale price of our common stock on The Nasdaq Global Select Market was $36.06 per share. As of August 30, 2007, there were approximately 1,245 holders of record of our common stock.

We currently intend to retain any earnings for use in our business, for investment in acquisitions and to repurchase shares of our common stock. We have not paid any cash dividends on our capital stock in the last two years and do not currently anticipate paying any cash dividends on our capital stock in the foreseeable future.

Issuer Purchases of Equity Securities

Our Board of Directors has authorized an ongoing stock repurchase program with a total repurchase authority granted to us of $1.5 billion, of which $200.0 million was authorized in February 2006 and $300.0 million was authorized in October 2006. Our stock repurchase program was suspended during the pendency of our Audit Committee s stock option investigation. The objective of the stock repurchase program is to improve stockholders returns. At December 31, 2006, approximately $293.4 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock. The following table shows the monthly activity related to our stock repurchase program for the quarter ended December 31, 2006.

	Total Number Of Shares Purchased (1)	Average Price Paid	Total Number of Shares Purchased as Part	Approximate dollar value of Shares that

		per Share	of Publicly Announced Plans or Programs	may yet be Purchased under the Plans or Programs (in thousands)
October 1, 2006 through October 31, 2006	1,383,072	$ 30.21(2)	1,383,072	$ 307,242
November 1, 2006 through November 30, 2006	2,167,096	$ 29.25(2)	2,167,096	$ 293,444
December 1, 2006 through December 31, 2006		$	(3)	$ 293,444
Total	3,550,168	$ 29.63(2)	3,550,168	$ 293,444

(1) Represents shares received under our prepaid stock repurchase programs and shares acquired in open market purchases. We expended a net amount of $91.9 million during the quarter ended December 31, 2006 for repurchases of our common stock. For more information see Note 8 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2006.

Table of Contents

(2) These amounts represent the cumulative average of the price paid per share for shares acquired in open market purchases and those received under our prepaid stock repurchase programs, some of which extend over more than one fiscal period.

(3) We suspended our stock repurchase program for the duration of our Audit Committee s voluntary, independent review of our historical stock option granting practices and related accounting. For more information on our independent review of historical stock option granting practices and related accounting see the Explanatory Note to this Annual Report on Form 10-K for the year ended December 31, 2006, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 2 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2006.

ITEM 6. ***SELECTED CONSOLIDATED FINANCIAL DATA***

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Annual Report on Form 10-K for the year ended December 31, 2006. We have not amended our previously filed Annual Reports on Form 10-K and Form 10-K/A or our previously filed Quarterly Reports on Form 10-Q for the periods affected by the restatement, which are described in the Explanatory Note to this Annual Report on Form 10-K for the year ended December 31, 2006, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Note 2 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2006. The financial statements and related financial information contained in such previously filed reports should not be relied upon. The financial information that has been previously filed or otherwise reported for the restated periods is superseded by the information contained in this Annual Report on Form 10-K.

The following table sets forth the effect of the restatement for each of the applicable fiscal years:

	Year Ended December 31,				
	2006	2005(a) (Restated)	2004 (a) (Restated)	2003 (Restated)	2002 (Restated)
		(In thousands, except per share data)			
Consolidated Statements of Income Date (a):					
Net revenues	$ 1,134,319	$ 908,722	$ 741,157	$ 588,625	$ 527,448
Cost of revenues (b)	98,698	58,099			