CITRIX SYSTEMS INC
Form 10-Q
November 09, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2010

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 incorporation or organization)	*(IRS Employer Identification No.)*
851 West Cypress Creek Road	
Fort Lauderdale, Florida	**33309**
(Address of principal executive offices)	*(Zip Code)*

Registrant s Telephone Number, Including Area Code:

(954) 267-3000

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

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

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

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

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

As of November 3, 2010 there were 187,774,447 shares of the registrant s Common Stock, $.001 par value per share, outstanding.

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CITRIX SYSTEMS, INC.

Form 10-Q

For the Quarterly Period Ended September 30, 2010

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PART I: FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CITRIX SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2010	December 31, 2009
	(In thousands, except par value)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 398,988**	$ 261,443
Short-term investments available-for-sale	**503,191**	338,168
Accounts receivable, net of allowances of $4,377 and $4,836 at September 30, 2010 and December 31, 2009, respectively	**273,286**	304,912
Inventories	**7,349**	8,664
Prepaid expenses and other current assets	**142,371**	71,519
Current portion of deferred tax assets, net	**61,463**	54,589
Total current assets	**1,386,648**	1,039,295
Long-term investments trading		38,689
Long-term investments available-for-sale	**689,211**	568,957
Property and equipment, net	**247,208**	247,703
Goodwill	**923,463**	899,819
Other intangible assets, net	**191,079**	213,195
Long-term portion of deferred tax assets, net	**17,677**	37,944
Other assets	**41,701**	45,545
	$ 3,496,987	$ 3,091,147
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	**$ 58,472**	$ 57,352
Accrued expenses and other current liabilities	**250,051**	221,498
Current portion of deferred revenues	**580,739**	555,514
Total current liabilities	**889,262**	834,364
Long-term portion of deferred revenues	**99,434**	63,336
Other liabilities	**6,697**	4,940
Commitments and contingencies		
Stockholders equity:		
Preferred stock at $.01 par value: 5,000 shares authorized, none issued and outstanding		
Common stock at $.001 par value: 1,000,000 shares authorized; 276,327 and 264,831 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	**276**	265
Additional paid-in capital	**3,019,486**	2,587,727
Retained earnings	**1,760,769**	1,578,084
Accumulated other comprehensive income (loss)	**2,494**	(2,060)

	4,783,025	4,164,016
Less common stock in treasury, at cost (88,592 and 82,222 shares at September 30, 2010 and December 31, 2009, respectively)	**(2,289,652)**	(1,975,509)
Total Citrix Systems, Inc. stockholders equity	**2,493,373**	2,188,507
Non-controlling interest	**8,221**	
Total stockholders equity	**2,501,594**	2,188,507
	$ 3,496,987	$ 3,091,147

See accompanying notes.

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CITRIX SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands, except per share information)			
Revenues:				
Product licenses	**$ 151,758**	$ 129,060	**$ 423,197**	$ 370,652
License updates	**174,128**	151,041	**505,684**	448,573
Online services	**91,660**	78,878	**265,821**	226,208
Technical services	**54,687**	42,063	**150,236**	117,495
Total net revenues	**472,233**	401,042	**1,344,938**	1,162,928
Cost of net revenues:				
Cost of product license revenues	**19,325**	13,191	**47,125**	36,191
Cost of services revenues	**25,934**	20,685	**75,613**	63,440
Amortization of product related intangible assets	**12,539**	11,542	**37,314**	35,064
Total cost of net revenues	**57,798**	45,418	**160,052**	134,695
Gross margin	**414,435**	355,624	**1,184,886**	1,028,233
Operating expenses:				
Research and development	**87,399**	68,865	**244,644**	215,062
Sales, marketing and services	**174,734**	168,233	**531,855**	498,952
General and administrative	**67,404**	57,254	**188,828**	175,295
Amortization of other intangibles	**3,334**	5,111	**11,267**	15,268
Restructuring	**87**	61	**922**	22,827
Total operating expenses	**332,958**	299,524	**977,516**	927,404
Income from operations	**81,477**	56,100	**207,370**	100,829
Interest income	**3,638**	4,059	**11,031**	11,167
Interest expense	**(131)**	(85)	**(272)**	(243)
Other income (expense), net	**2,193**	1,651	**(251)**	939
Income before income taxes	**87,177**	61,725	**217,878**	112,692
Income taxes	**(602)**	8,302	**35,193**	9,823
Net income	**$ 87,779**	$ 53,423	**$ 182,685**	$ 102,869
Earnings per share:				
Basic	**$ 0.47**	$ 0.29	**$ 0.99**	$ 0.57
Diluted	**$ 0.46**	$ 0.29	**$ 0.96**	$ 0.56

Weighted average shares outstanding:				
Basic	**186,558**	182,531	**185,397**	181,541
Diluted	**191,004**	186,334	**189,827**	184,344

See accompanying notes.

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CITRIX SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
	2010	**2009**
	(In thousands)	
Operating Activities		
Net income	**$ 182,685**	$ 102,869
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	**48,581**	50,332
Depreciation and amortization of property and equipment	**54,045**	51,991
Stock-based compensation expense	**83,906**	84,480
Loss (gain) on investments	**1,667**	(18)
Provision for doubtful accounts	**1,939**	1,473
Provision for product returns	**1,316**	2,666
Provision for inventory reserves	**2,244**	1,704
Tax effect of stock-based compensation	**36,814**	(4,392)
Excess tax benefit from exercise of stock options	**(43,098)**	(6,943)
Goodwill adjustment		5,393
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	**(1,303)**	2,601
Other non-cash items	**844**	2,456
Total adjustments to reconcile net income to net cash provided by operating activities	**186,955**	191,743
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	**25,802**	(7,238)
Inventories	**(928)**	729
Prepaid expenses and other current assets	**(73,206)**	(26,816)
Other assets	**3,632**	(5,188)
Deferred tax assets, net	**7,574**	(135)
Accounts payable	**3,542**	(3,693)
Accrued expenses and other current liabilities	**38,403**	27,203
Deferred revenues	**61,324**	22,459
Other liabilities	**1,182**	128
Total changes in operating assets and liabilities, net of the effects of acquisitions	**67,325**	7,449
Net cash provided by operating activities	**436,965**	302,061
Investing Activities		
Purchases of available-for-sale investments	**(1,009,881)**	(810,624)
Proceeds from sales of available-for-sale investments	**384,625**	352,219
Proceeds from maturities of available-for-sale investments	**344,969**	201,292
Proceeds from trading securities	**44,560**	
Purchases of property and equipment	**(53,101)**	(56,800)
Purchases of other assets	**(3,500)**	(3,000)
Cash paid for acquisitions, net of cash acquired	**(20,672)**	(2,120)
Cash paid for licensing agreements and product related intangible assets	**(12,882)**	(3,290)
Net cash used in investing activities	**(325,882)**	(322,323)
Financing Activities		

Proceeds from issuance of common stock under stock-based compensation plans	**310,830**	129,135
Excess tax benefit from exercise of stock options	**43,098**	6,943
Stock repurchases, net	**(324,906)**	(139,990)
Cash paid for tax withholding on vested stock awards	**(4,237)**	(95)
Net cash provided by (used in) financing activities	**24,785**	(4,007)
Effect of exchange rate changes on cash and cash equivalents	**1,677**	(1,484)
Change in cash and cash equivalents	**137,545**	(25,753)
Cash and cash equivalents at beginning of period	**261,443**	326,121
Cash and cash equivalents at end of period	**$ 398,988**	$ 300,368

See accompanying notes.

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CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

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

The condensed consolidated financial statements of the Company include the accounts of its wholly-owned subsidiaries in the Americas, Europe, the Middle East and Africa (EMEA), Asia-Pacific and the Online Services division. All significant transactions and balances between the Company and its subsidiaries have been eliminated in consolidation. In addition, the Company presents non-controlling interests within the equity section of its condensed consolidated financial statements in accordance with the revised authoritative guidance for the presentation and disclosure of non-controlling interests of a consolidated subsidiary. The results from operations related to the non-controlling interest were immaterial for all periods presented.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Investments

Short-term and long-term investments at September 30, 2010 and December 31, 2009 primarily consist of agency securities, corporate securities, government securities, commercial paper and municipal securities. Investments classified as available-for-sale are stated at fair value with unrealized gains and losses, net of taxes, reported in accumulated other comprehensive income (loss). Investments classified as trading securities are stated at fair value with unrealized gains and losses reported in earnings. The Company classifies its available-for-sale investments as current and non-current based on their actual remaining time to maturity. The Company does not recognize changes in the fair value of its available-for-sale investments in income unless a decline in value is considered other-than-temporary in accordance with the authoritative guidance.

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

Inventories

Inventories are stated at the lower of cost or market on a standard cost basis, which approximates actual cost. The Company s inventories primarily consist of finished goods as of September 30, 2010 and December 31, 2009.

Revenue Recognition

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

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CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The Company recognizes revenue when all of the following criteria are met: persuasive evidence of the arrangement exists; delivery has occurred or the service has been provided and the Company has no remaining obligations; the fee is fixed or determinable; and collectability is probable. Net revenues include the following categories: Product Licenses, License Updates, Online Services and Technical Services. Product License revenues primarily represent fees related to the licensing of the Company s software and hardware appliance products. These revenues are reflected net of sales allowances, cooperative advertising agreements, reseller rewards and provisions for returns. License Update revenues consist of fees related to the Subscription Advantage program that are recognized ratably over the term of the contract, which is typically 12 to 24 months. Subscription Advantage is a renewable program that provides subscribers with immediate access to software upgrades, enhancements and maintenance releases when and if they become available during the term of the contract. The Company capitalizes certain third party commissions related to Subscription Advantage renewals. The capitalized commissions are amortized to Sales, Marketing and Services expense at the time the related deferred revenue is recognized as revenue. Online Services revenues consist primarily of fees related to online service agreements, which are recognized ratably over the contract term. In addition, Online Services revenues may also include set-up fees, which are recognized ratably over the contract term or the expected customer life, whichever is longer. Technical Services revenues are comprised of fees from technical support services which are recognized ratably over the contract term as well as revenues from product training and certification, and consulting services revenue related to implementation of the Company s products, which is recognized as the services are provided.

The Company licenses most of its software products bundled with a one year contract for its Subscription Advantage program. Customers may also elect to purchase subscriptions for license updates, when not bundled with the initial product purchase. Technical support, product training or consulting services may be purchased separately by the customer. The Company s appliance products are integrated with software that is essential to the functionality of the equipment. Unspecified software upgrades and enhancements can be purchased for the Company s appliance products through maintenance contracts. Accordingly, for these hardware appliances, the Company accounts for revenue in accordance with authoritative guidance governing software revenue recognition. Online services are sold separately. The Company allocates revenue to license updates and any other undelivered elements of the arrangement based on vendor specific objective evidence (VSOE) of fair value of each element and such amounts are deferred until the applicable delivery criteria and other revenue recognition criteria described above have been met. The balance of the revenues, net of any discounts inherent in the arrangement, is recognized at the outset of the arrangement using the residual method as the product licenses are delivered. If management cannot objectively determine the fair value of each undelivered element based on the VSOE of fair value, revenue recognition is deferred until all elements are delivered, all services have been performed, or until fair value can be objectively determined.

In the normal course of business, the Company is not obligated to accept product returns from its distributors under any conditions, unless the product item is defective in manufacture. The Company establishes provisions for estimated returns, as well as other sales allowances, concurrently with the recognition of revenue. Allowances for estimated product returns amounted to approximately $0.7 million and $1.6 million at September 30, 2010 and December 31, 2009, respectively.

Accounting for Stock-Based Compensation Plans

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

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CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. EARNINGS PER SHARE

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

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

	Three Months ended September 30,		Nine Months ended September 30,	
	2010	**2009**	**2010**	**2009**
Numerator:				
Net income	**$ 87,779**	$ 53,423	**$ 182,685**	$ 102,869
Denominator:				
Denominator for basic earnings per share weighted-average shares outstanding	**186,558**	182,531	**185,397**	181,541
Effect of dilutive employee stock awards	**4,446**	3,803	**4,430**	2,803
Denominator for diluted earnings per share weighted-average shares outstanding	**191,004**	186,334	**189,827**	184,344
Basic earnings per share	**$ 0.47**	$ 0.29	**$ 0.99**	$ 0.57
Diluted earnings per share	**$ 0.46**	$ 0.29	**$ 0.96**	$ 0.56
Anti-dilutive weighted-average shares	**1,625**	12,151	**1,933**	18,704

4. ACQUISITIONS

2010 Acquisitions

On September 7, 2010, the Company acquired all of the issued and outstanding securities of VMLogix, Inc. (VMLogix), a privately held Delaware corporation headquartered in Santa Clara, California. VMLogix is a provider of virtualization management software for private and public cloud computing systems. The total consideration for this transaction was approximately $15.3 million, comprised of approximately $12.2 million in cash and approximately $3.1 million related to VMLogix liabilities settled in conjunction with the acquisition. The source of funds for this transaction consisted of available cash. The Company recorded approximately $10.5 million of goodwill, which is not deductible for tax purposes, and acquired $9.3 million in assets including $7.5 million of identifiable intangible assets. The Company assumed liabilities of approximately $4.5 million in conjunction with the acquisition. In addition, the Company also assumed stock options for which the vesting period reset fully upon the closing of the transaction. When these stock options vest, they will be exercisable for 47,784 shares of the Company s common stock. The Company has included the effect of this transaction in its results of operations prospectively from the date of the acquisition, which effect was not material to its consolidated results.

During the first quarter of 2010, the Company acquired two privately-held companies for a total cash consideration of approximately $9.2 million. The Company recorded approximately $3.7 million of goodwill, which is not deductible for tax purposes, and acquired $8.3 million in assets including $7.1 million of identifiable intangible assets. In addition, the Company assumed liabilities of approximately $2.8 million in conjunction with the acquisitions. The Company has included the effects of these transactions in its results of operations prospectively from the respective dates of the acquisitions, which effects were not material to its consolidated results.

5. INVESTMENTS

Available-for-sale Investments

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

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CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	September 30, 2010				December 31, 2009			
Description of the Securities	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Agency securities	$ 639,175	$ 2,819	$ (339)	$ 641,655	$ 507,443	$ 1,412	$ (781)	$ 508,074
Corporate securities	437,521	1,243	(911)	437,853	315,239	1,255	(5,295)	311,199
Government securities	78,557	315	(16)	78,856	30,269	146	(70)	30,345
Commercial paper	17,936			17,936	26,314		(1)	26,313
Municipal securities	16,083	27	(8)	16,102	31,177	25	(8)	31,194
Total	$ 1,189,272	$ 4,404	$ (1,274)	$ 1,192,402	$ 910,442	$ 2,838	$ (6,155)	$ 907,125

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

For the three and nine months ended September 30, 2010, the Company received proceeds from sales of available-for-sale investments of $140.7 million and $384.6 million, respectively, and for the three and nine months ended September 30, 2009, it received proceeds from the sales of available-for-sale investments of $105.1 million and $352.2 million, respectively. For the three and nine months ended September 30, 2010, the Company had realized gains on the sales of available-for-sale investments of $0.1 million and $2.6 million, respectively. The Company had no realized losses on the sales of available-for-sale investments during the three months ended September 30, 2010. For the nine months ended September 30, 2010, the Company had realized losses on the sales of available-for-sale investments of $0.3 million. For the three and nine months ended September 30, 2009, the Company had realized gains on the sales of available-for-sale investments of $0.3 million and $0.6 million, respectively. The Company had realized losses on the sales of available-for-sale investments of $0.1 million during both the three and nine months ended September 30, 2009. All realized gains and losses related to the sales of available-for-sale investments are included in other income (expense), net, in the accompanying condensed consolidated statements of income.

The average remaining maturities of the Company s short-term and long-term available-for-sale investments at September 30, 2010 were approximately six months and eight years, respectively.

Unrealized Losses on Available-for-Sale Investments

The gross unrealized losses on the Company s available-for-sale investments that are not deemed to be other-than-temporarily impaired were not material as of September 30, 2010. This was primarily due to a recovery in value of the Company s investment issued by AIG Matched Funding Corporation (the AIG Capped Floater) with a face value of $50.0 million, which matures in September 2011. As of September 30, 2010, the unrealized loss related to the AIG Capped Floater was $0.7 million, which is included in accumulated other comprehensive income (loss). As of the date of this report, American International Group, Inc. (AIG) has not been reported to have defaulted on capital repayments to holders of its recently matured debt. Because the Company does not intend to sell the AIG Capped Floater and it is more likely than not that it will not be required to sell the security before the recovery of its amortized cost basis, which may not occur until maturity, it does not consider the security to be other-than-temporarily impaired.

Trading Investments

The Company held municipal auction rate securities, the majority of which were triple-A rated, whose underlying assets were generally student loans that were substantially backed by the federal government under the Federal Family Education Loan Program through investment accounts

managed by UBS Financial Services, Inc. (UBS). The market for municipal auction rate securities in the Company s portfolio began experiencing auction failures in 2008. In November 2008, the Company formally accepted the terms of a settlement (the Settlement) from UBS. Upon accepting the terms of the Settlement, the Company received an enforceable, non-transferrable right (the Put Option) that enabled it to sell its auction rate securities back to UBS. On June 30, 2010, the Company exercised the Put Option and sold all of its remaining investments in auction rate securities back to UBS at par. During 2010, the Company realized a gain of $6.0 million related to the sale of its investments in auction rate securities and a corresponding loss of $6.0 million related to the settlement of the Put Option, both of which are included in other income (expense), net, in the accompanying condensed consolidated statements of income.

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CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. FAIR VALUE MEASUREMENTS

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	As of September 30, 2010	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Short-term investments- available-for-sale	$ 503,191	$ 453,842	$	$ 49,349
Prepaid expenses and other current assets	13,424		13,424	
Long-term investments- available-for-sale	689,211	689,211		
Accrued expenses and other current liabilities	9,768		9,768	

The Company measures its cash flow hedges, which are classified as prepaid expenses and other current assets and accrued expenses and other current liabilities, at fair value based on indicative prices in active markets and generally measures its investments in available-for-sale securities at fair value based on quoted prices in active markets for identical securities. See Note 5 for more information regarding the Company s available-for-sale investments.

In order to measure the AIG Capped Floater at fair value, the Company used a discounted cash flow model. The Company then discounted those cash flows at a rate reflecting the market risk inherent in holding an AIG security with a similar maturity as evidenced by pricing in the markets. Since utilizing a discounted cash flow model required the Company to make assumptions that were not directly or indirectly observable regarding the AIG Capped Floater s fair value, accordingly it is a Level 3 valuation and is included in the table below.

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

	Put Option	Investments	Total
		(In thousands)	
Balance at December 31, 2009	$ 6,048	$ 83,785	$ 89,833
Proceeds received on Level 3 securities		(44,560)	(44,560)
Decrease in previously recognized unrealized losses included in accumulated other comprehensive income (loss)		4,253	4,253
Total realized (losses) gains included in earnings	(6,048)	5,871	(177)
Balance at September 30, 2010	$	$ 49,349	$ 49,349

Realized (losses) gains included in earnings for the period are reported in other income (expense), net. See Note 5 for more information regarding the settlement of the auction rate securities and related Put Option.

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Additional Disclosures Regarding Fair Value Measurements

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

7. STOCK-BASED COMPENSATION

The Company s stock-based compensation program is a long-term retention program that is intended to attract and reward talented employees and align stockholder and employee interests. As of September 30, 2010, the Company had two stock-based compensation plans under which it was granting stock options and non-vested stock units. The Company is currently granting stock-based awards from its Amended and Restated 2005 Equity Incentive Plan (as amended, the 2005 Plan) and its 2005 Employee Stock Purchase Plan (the 2005 ESPP). In connection with certain of the Company s acquisitions, the Company has assumed several plans from acquired companies. The Company s Board of Directors has provided that no new awards will be granted under the Company s acquired stock plans. The Company s superseded and expired stock plans include the Amended and Restated 1995 Stock Plan, Second Amended and Restated 2000 Director and Officer Stock Option and Incentive Plan, Second Amended and Restated 1995 Non-Employee Director Stock Option Plan and Third Amended and Restated 1995 Employee Stock Purchase Plan. Awards previously granted under these plans and still outstanding typically expire ten years from the date of grant and will continue to be subject to all the terms and conditions of such plans, as applicable.

Under the terms of the 2005 Plan, the Company is authorized to grant incentive stock options (ISOs), non-qualified stock options (NSOs), non-vested stock, non-vested stock units, stock appreciation rights (SARs), and performance units and to make stock-based awards to full and part-time employees of the Company and its subsidiaries or affiliates, where legally eligible to participate, as well as consultants and non-employee directors of the Company. Currently, the 2005 Plan provides for the issuance of a maximum of 37,600,000 shares of common stock. Under the 2005 Plan, ISOs must be granted at exercise prices no less than fair market value on the date of grant, except for ISOs granted to employees who own more than 10% of the Company s combined voting power, for which the exercise prices must be no less than 110% of the fair market value at the date of grant. NSOs and SARs must be granted at no less than fair market value on the date of grant, or in the case of SARs in tandem with options, at the exercise price of the related option. Non-vested stock awards may be granted for such consideration in cash, other property or services, or a combination thereof, as determined by the Company s Compensation Committee of its Board of Directors. All stock-based awards, other than the long-term incentive awards discussed below, are exercisable or issuable upon vesting. The Company s policy is to recognize compensation cost for awards with only service conditions and a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. As of September 30, 2010, there were 27,926,915 shares of common stock reserved for issuance pursuant to the Company s stock-based compensation plans and the Company had authorization under its 2005 Plan to grant 13,876,307 additional stock-based awards.

Under the 2005 ESPP, all full-time and certain part-time employees of the Company are eligible to purchase common stock of the Company twice per year at the end of a six-month payment period (a Payment Period). During each Payment Period, eligible employees who so elect may authorize payroll deductions in an amount no less than 1% nor greater than 10% of his or her base pay for each payroll period in the Payment Period. At the end of each Payment Period, the accumulated deductions are used to purchase shares of common stock from the Company up to a maximum of 12,000 shares for any one employee during a Payment Period. Shares are purchased at a price equal to 85% of the fair market value of the Company s common stock on the last business day of a Payment Period. Employees who, after exercising their rights to purchase shares of common stock in the 2005 ESPP, would own shares representing 5% or more of the voting power of the Company s common stock, are ineligible to participate under the 2005 ESPP. The 2005 ESPP provides for the issuance of a maximum of 10,000,000 shares of common stock. As of September 30, 2010, 1,904,576 shares had been issued under the 2005 ESPP. The Company recorded stock-based compensation costs related to the 2005 ESPP of $0.8 million and $2.1 million for the three and nine months ended September 30, 2010, respectively.

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Stock-Based Compensation

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

Income Statement Classifications	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cost of services revenues	**$ 371**	$ 371	**$ 999**	$ 1,192
Research and development	**17,418**	14,332	**46,029**	42,876
Sales, marketing and services	**7,448**	8,740	**22,516**	24,078
General and administrative	**5,596**	4,449	**14,362**	16,334
Total	**$ 30,833**	$ 27,892	**$ 83,906**	$ 84,480

Stock Options

Options granted from the 2005 Plan typically have a five-year life and vest over three years at a rate of 33.3% of the shares underlying the option one year from date of grant and at a rate of 2.78% monthly thereafter. The Company currently uses the Black-Scholes option pricing model to determine the fair value of its stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company s stock price, as well as assumptions regarding a number of complex and subjective variables. These variables include the Company s expected stock price, volatility over the term of the awards, actual employee exercise behaviors, risk-free interest rate and expected dividends. For purposes of valuing stock options, the Company determined the expected volatility factor by considering the implied volatility in two-year market-traded options of the Company s common stock based on third party volatility quotes in accordance with the provisions of Staff Accounting Bulletin (SAB) No. 107, *Share Based Payment*. The Company s decision to use implied volatility was based upon the availability of actively traded options on the Company s common stock and its assessment that implied volatility is more representative of future stock price trends than historical volatility. The approximate risk free interest rate was based on the implied yield available on U.S. Treasury zero-coupon issues with remaining terms equivalent to the Company s expected term on its options. The expected term of the Company s stock options was based on the historical employee exercise patterns. The Company also periodically analyzes its historical pattern of option exercises based on certain demographic characteristics and determined that there were no meaningful differences in option exercise activity based on the demographic characteristics. The Company does not intend to pay dividends on its common stock in the foreseeable future. Accordingly, the Company used a dividend yield of zero in its option pricing model.

The weighted average fair value of stock options granted during the three months ended September 30, 2010 was $14.71. The total intrinsic value of options exercised during the three and nine months ended September 30, 2010 was $118.3 million and $231.5 million, respectively. The intrinsic value is calculated as the difference between the market value on the date of exercise and the exercise price of the shares. As of September 30, 2010, there was $69.5 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 2.15 years.

The assumptions used to value option grants are as follows:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010		Nine Months Ended September 30, 2009	
Expected volatility factor	**0.34**	0.35	**0.34**	**0.44**	0.35	0.44
Approximate risk free interest rate	**0.89%**	1.61%	**0.89%**	**1.61%**	1.31%	1.61%
Expected term (in years)	**3.06**	3.27	**3.06**	**3.37**	3.17	3.37
Expected dividend yield	**0%**	0%		**0%**		0%

Non-vested Stock

The Company assumed shares of non-vested stock in conjunction with its acquisition of XenSource, Inc. Upon assumption, these shares were reset to vest over three years at a rate of 33.3% of the shares granted one year from date of grant and at a rate of 2.78% monthly thereafter based on service. As of September 30, 2010, the number of non-vested shares granted and outstanding was 34,633 and there was $0.9 million of total unrecognized compensation cost related to non-vested stock. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 0.08 years.

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Non-vested Stock Units

Annually, the Company awards vice presidents and senior executives non-vested performance stock units from the 2005 Plan. The number of non-vested stock units underlying each award is determined one year after the date of the award and is based on achievement of a specific corporate financial performance goal. If the performance goal is less than 90% attained, then no non-vested stock units will be issued pursuant to the authorized award. For performance at and above 90%, the number of non-vested stock units issued is based on a graduated slope, with the maximum number of non-vested stock units issuable pursuant to the award capped at 125% of the base number of non-vested stock units set forth in the executive s award agreement. The Company is required to estimate the attainment that will be achieved related to the defined performance goals and the number of non-vested stock units that will ultimately be awarded in order to recognize compensation expense over the vesting period. If the performance goal is met, the non-vested stock units vest 33.33% on each anniversary subsequent to the date of the award. Each non-vested stock unit, upon vesting, represents the right to receive one share of the Company s common stock. If the performance goals are not met, no compensation cost will ultimately be recognized in that period and any previously recognized compensation cost will be reversed. During 2009, the performance goal was achieved within the range of the graduated slope and there was no material adjustment to compensation cost related to non-vested stock units granted to executives.

The Company also awards vice presidents, senior executives and certain other employees non-vested stock units from the 2005 Plan that vest based on service. These non-vested stock units vest 33.33% on each anniversary subsequent to the date of the award. Each non-vested stock unit, upon vesting, will represent the right to receive one share of the Company s common stock. In addition, the Company awards non-vested stock units to all of its non-employee directors. These units vest monthly in 12 equal installments based on service and, upon vesting, each stock unit represents the right to receive one share of the Company s common stock.

As of September 30, 2010, the number of non-vested stock units outstanding was 1,203,860 and there was $32.0 million of total unrecognized compensation cost related to non-vested stock units. The unrecognized cost is expected to be recognized over a weighted-average period of 2.29 years.

Long-term Incentive Plan

In May 2009, the Company granted certain senior level executives restricted stock units that vest based on market and service conditions as part of a long-term incentive plan. The number of restricted stock units underlying each award is determined at the end of a three-year performance period ending December 31, 2011. In order to vest, the Company s stock price must appreciate by at least ten percent by the end of the performance period. If the Company s stock appreciation is at least ten percent, then the percentage of the restricted stock units that will vest will be determined by comparing the Company s stock price appreciation to the appreciation of the weighted average of two stock market indices comprised of the Standard & Poor s 500 Index (the S&P 500), which has been assigned a two-thirds weighting, and the iShares Standard & Poor s North America Technology Index (the IGM), which has been assigned a one-third weighting. Based on the level of performance, up to 200% of the award may vest. After vesting, the shares underlying the award will be issued at the earliest of six months and one day after the participant s separation from the Company (other than termination for cause), the participant s death, or the effective date of a change in control of the Company. In the event of a change in control of the Company prior to the end of the performance period, the payout of any award is limited to a prorated portion of such award based upon a performance assessment prior to the change in control date.

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

The estimated fair value of each award was $24.16 as of the date of grant. As of September 30, 2010, the number of restricted stock units granted pursuant to this award was 175,667 and there was $2.3 million of total unrecognized compensation cost related to restricted stock units.

The unrecognized cost is expected to be recognized over 1.33 years.

8. LONG-TERM DEBT

Effective on August 9, 2005, the Company entered into a revolving credit facility (the Credit Facility) with a group of financial institutions (the Lenders). Effective September 27, 2006, the Company entered into an amendment and restatement of its Credit Facility (the Amendment). The Amendment decreased the overall range of interest rates the Company must pay on amounts outstanding on the Credit Facility and lowered the facility fee. In addition, the Amendment extended the term of the Credit Facility. The Credit Facility, as amended, allows the Company to increase the revolving credit commitment up to a maximum aggregate

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revolving credit commitment of $175.0 million. The Credit Facility, as amended, will expire on September 27, 2011 and it currently provides for a revolving line of credit in the aggregate amount of $100.0 million, subject to continued covenant compliance. A portion of the revolving line of credit (i) in the aggregate amount of $25.0 million may be available for issuances of letters of credit and (ii) in the aggregate amount of $15.0 million may be available for swing line loans. The Credit Facility, as amended, currently bears interest at the London Interbank Offered Rate (LIBOR) plus 0.32% and adjusts in the range of 0.32% to 0.80% above LIBOR based on the level of the Company s total debt and its adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) as defined in the agreement. In addition, the Company is required to pay a quarterly facility fee ranging from 0.08% to 0.20% based on the aggregate amount available under the Credit Facility, as amended, and the level of the Company s total debt and its adjusted EBITDA. Borrowings under the Credit Facility, as amended, are guaranteed by the Company and certain of the Company s U.S. and foreign subsidiaries, which guarantees are secured by a pledge of shares of certain foreign subsidiaries. As of September 30, 2010, there were no amounts outstanding under the Credit Facility, as amended.

The Credit Facility, as amended, contains customary default provisions, and the Company must comply with various financial and non-financial covenants. The financial covenants consist of a minimum interest coverage ratio and a maximum consolidated leverage ratio. The primary non-financial covenants contain certain limits on the Company s ability to pay dividends, conduct certain mergers or acquisitions, make certain investments and loans, incur future indebtedness or liens, alter the Company s capital structure or sell stock or assets. As of September 30, 2010, the Company was in compliance with all covenants of the Credit Facility.

9. SEGMENT INFORMATION

During the first quarter of 2010, the Company changed how it measures profitability internally, develops its annual plan and allocates its resources from a geography-based approach (which included the Americas, EMEA, Asia-Pacific and the Company s Online Services division), to a product division-based approach. This change reflects how the Company markets and sells its products. Accordingly, the Company has revised its reportable segments to reflect the way its chief operating decision maker (CODM) is currently managing and viewing the business. In addition, previously reported segment results have been restated to conform to the 2010 presentation. The Company s revenues are derived from sales of its Enterprise division products which include its Desktop Solutions, Datacenter and Cloud Solutions and related technical services and from sales of its Online Services division s web collaboration, connectivity and remote support services. The Enterprise division and the Online Services division constitute the Company s two reportable segments.

The Company does not engage in intercompany revenue transfers between segments. The Company s CODM evaluates the Company s performance based primarily on profitability from its Enterprise division products and Online Services division services. Segment profit for each segment includes certain research and development, sales, marketing, general and administrative expenses directly attributable to the segment as well as other corporate costs allocated to the segment and excludes certain expenses that are managed outside of the reportable segments. Costs excluded from segment profit primarily consist of certain restructuring charges, stock-based compensation costs, amortization of product related technology, amortization of other intangible assets, net interest and other income (expense). Accounting policies of the Company s segments are the same as its consolidated accounting policies. In addition, the Company will evaluate goodwill for impairment at the operating segment level, which represents its reporting units.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Net revenues:				
Enterprise division	**$ 380,573**	$ 322,164	**$ 1,079,117**	$ 936,720
Online Services division	**91,660**	78,878	**265,821**	226,208
Consolidated	**$ 472,233**	$ 401,042	**$ 1,344,938**	$ 1,162,928
Segment profit:				
Enterprise division	**$ 102,940**	$ 79,041	**$ 273,649**	$ 203,866
Online Services division	**25,330**	21,665	**67,130**	54,602
Unallocated expenses [(1)]:				
Amortization of intangible assets	**(15,873)**	(16,653)	**(48,581)**	(50,332)
Restructuring	**(87)**	(61)	**(922)**	(22,827)
Net interest and other income	**5,700**	5,625	**10,508**	11,863
Stock-based compensation	**(30,833)**	(27,892)	**(83,906)**	(84,480)
Consolidated income before income taxes	**$ 87,177**	$ 61,725	**$ 217,878**	$ 112,692

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

Revenues by Product Grouping

During the third quarter of 2010, the Company began reporting technical services revenue included in the Company s Enterprise division, which is comprised primarily of consulting and education services separately from the Desktop Solutions and Datacenter and Cloud Solutions product revenue groupings included in the Company s Enterprise division, as indicated in the table below. In addition, previously reported results have been restated to conform to the 2010 presentation.

Revenues by product grouping for the Company s Enterprise division and Online Services division were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Net revenues:				
Enterprise division				
Desktop Solutions revenues [(1)]	**$ 277,090**	$ 250,789	**$ 812,769**	$ 731,611

Datacenter and Cloud Solutions revenues [2]	**84,240**	57,281	**213,188**	163,866
Enterprise technical services [3]	**15,339**	10,957	**39,968**	29,483
Other	**3,904**	3,137	**13,192**	11,760
Total Enterprise division revenues	**380,573**	322,164	**1,079,117**	936,720
Online Services division revenues	**91,660**	78,878	**265,821**	226,208
Total net revenues	**$ 472,233**	$ 401,042	**$ 1,344,938**	$ 1,162,928

(1) Desktop Solutions revenues are primarily comprised of sales from the Company s desktop virtualization product, XenDesktop, and the Company s application virtualization product, XenApp, and related technical support.

(2) Datacenter and Cloud Solutions revenues are primarily comprised of sales from the Company s application networking products which include NetScaler, Access Gateway and Branch Repeater and the Company s virtual infrastructure products which include XenServer and Essentials for Hyper-V and related maintenance.

(3) Technical services revenues are primarily comprised of revenues from consulting and educational services.

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Revenues by Geographic Location

The following table presents revenues by geographic location, including the Online Services division for the following periods (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net revenues:				
Americas	**$ 217,349**	$ 177,843	**$ 598,280**	$ 507,386
EMEA	**122,628**	112,366	**367,143**	337,721
Asia-Pacific	**40,596**	31,955	**113,694**	91,613
Online Services division	**91,660**	78,878	**265,821**	226,208
Total net revenue	**$ 472,233**	$ 401,042	**$ 1,344,938**	$ 1,162,928

10. RESTRUCTURING

During the first quarter of 2009, the Company announced a restructuring program and reduced its headcount by approximately 450 full-time positions. The restructuring program was completed in 2009. Total costs incurred to date were $27.4 million, of which $26.2 million was related to the Company s Enterprise division and $1.2 million was related to its Online Services division.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Enterprise division	**$ 87**	$ 119	**$ 761**	$ 22,296
Online Services division		(58)	**161**	531
Total restructuring charges	**$ 87**	$ 61	**$ 922**	$ 22,827

Restructuring accruals

As of September 30, 2010, the $2.1 million in outstanding restructuring liability relates to non-cancelable lease costs related to the consolidation of excess facilities that the Company expects to pay over the lives of the related obligations through fiscal 2012.

The activity in the Company s restructuring accruals for the nine months ended September 30, 2010 is summarized as follows (in thousands):

	Total
Balance at January 1, 2010	**$ 3,492**
Employee severance and related costs	**382**
Adjustments to non-cancelable lease costs and other charges	**540**
Payments	**(2,321)**
Reversal of previous charges	
Balance at September 30, 2010	**$ 2,093**

As of September 30, 2010, restructuring accruals by segment consisted of the following (in thousands):

	Total
Enterprise division	**$ 1,861**
Online Services division	**232**
Total restructuring accruals	**$ 2,093**

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11. DERIVATIVE FINANCIAL INSTRUMENTS

Cash Flow Hedges

As of September 30, 2010, the Company s derivative assets and liabilities resulted from cash flow hedges related to its forecasted operating expenses transacted in local currencies. A substantial portion of the Company s overseas expenses are and will continue to be transacted in local currencies. To protect against fluctuations in operating expenses and the volatility of future cash flows caused by changes in currency exchange rates, the Company has established a program that uses foreign exchange forward contracts to hedge its exposure to these potential changes. The terms of these instruments, and the hedged transactions to which they relate, generally do not exceed 12 months and the maximum term is 18 months.

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

The total cumulative unrealized gain on cash flow derivative instruments was $3.5 million and $4.3 million at September 30, 2010 and December 31, 2009, respectively, and is included in accumulated other comprehensive income (loss) in the accompanying condensed consolidated balance sheets. The net unrealized loss as of September 30, 2010 is expected to be recognized in income over the next twelve months at the same time the hedged items are recognized in income.

As of September 30, 2010, the Company had the following net notional foreign currency forward contracts outstanding (in thousands):

Foreign Currency	Currency Denomination
Australian dollars	AUD 26,259
British pounds sterling	GBP 18,861
Canadian dollars	CAD 2,900
Chinese yuan	CNY 23,720
Euro	EUR 29,667
Hong Kong dollars	HKD 61,783
Indian rupees	INR 526,995
Japanese yen	JPY 58,511
Singapore dollars	SGD 9,152
Swiss francs	CHF 19,147

Derivatives not Designated as Hedges

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

A portion of the Company s overseas assets and liabilities are and will continue to be denominated in local currencies. To protect against fluctuations in earnings caused by changes in currency exchange rates when remeasuring the Company s balance sheet, it utilizes foreign exchange forward contracts to hedge its exposure to this potential volatility. There were no assets or liabilities outstanding related to derivatives not designated as hedges as of September 30, 2010 and December 31, 2009.

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Fair Values of Derivative Instruments

	Asset Derivatives				Liability Derivatives			
	(In thousands)							
	September 30, 2010		December 31, 2009		September 30, 2010		December 31, 2009	
Derivatives Designated as Hedging Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency forward contracts	Prepaid and other current assets	$ 13,424	Prepaid and other current assets	$ 8,981	Accrued expenses and other current liabilities	$ 9,768	Accrued expenses and other current liabilities	$ 4,141

The Effect of Derivative Instruments on Financial Performance

	For the Three Months ended September 30, (In thousands)				
Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in Other Comprehensive Income (Effective Portion)		Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) (Effective Portion)	
	2010	2009		2010	2009
Foreign currency forward contracts	$ 10,162	$ 4,442	Operating expenses	$ 2,268	$ (376)

	For the Nine Months ended September 30, (In thousands)				
Derivatives in Cash Flow Hedging Relationships	Amount of (Loss) Gain Recognized in Other Comprehensive Income (Effective Portion)		Location of (Loss) Gain Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Effective Portion)	Amount of (Loss) Gain Reclassified from Accumulated Other Comprehensive Income (Loss) (Effective Portion)	
	2010	2009		2010	2009
Foreign currency forward contracts	$ (808)	$ 14,517	Operating expenses	$ (2,482)	$ 4,746

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

Derivatives Not Designated as Hedging Instruments	For the Three Months ended September 30, (In thousands) Location of Loss Recognized in Income on Derivative	Amount of Loss Recognized in Income on Derivative 2010	2009
Foreign currency forward contracts	Other income (expense), net	$ (836)	$ (138)

Derivatives Not Designated as Hedging Instruments	For the Nine Months ended September 30, (In thousands) Location of Loss Recognized in Income on Derivative	Amount of Loss Recognized in Income on Derivative 2010	2009
Foreign currency forward contracts	Other income (expense), net	$ (1,324)	$ (2,428)

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12. COMPREHENSIVE INCOME

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Net income	**$ 87,779**	$ 53,423	**$ 182,685**	$ 102,869
Other comprehensive income:				
Change in unrealized gain on available-for-sale securities	**2,922**	8,670	**5,362**	8,855
Net change due to derivative instruments	**10,162**	4,442	**(808)**	14,517
Comprehensive income	**$ 100,863**	$ 66,535	**$ 187,239**	$ 126,241

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

	September 30, 2010	**December 31, 2009**
Unrealized gain (loss) on available-for-sale securities	**$ 1,420**	$ (3,942)
Unrealized gain on derivative instruments	**3,532**	4,340
Other comprehensive loss on pension liability	**(2,458)**	(2,458)
Accumulated other comprehensive income (loss)	**$ 2,494**	$ (2,060)

13. INCOME TAXES

The Company s net unrecognized tax benefits totaled approximately $58.2 million and $46.2 million as of September 30, 2010 and December 31, 2009, respectively. There were no amounts included in the balance at September 30, 2010 of tax positions, which would not affect the annual effective tax rate, and approximately $1.2 million of accrued interest on tax positions, which is included in income tax expense.

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

During the third quarter of 2009, the Internal Revenue Service (IRS) concluded its examination of the Company s income tax returns for 2004 and 2005 and issued a Revenue Agent s Report (the RAR). The RAR asserted income tax deficiencies of approximately $81.3 million (excluding interest) for tax years 2004 and 2005. The Company agreed with all of the adjustments contained in the RAR, with the exception of those related to the transfer pricing and consequential adjustments involving the intercompany transfers of certain intellectually property in earlier tax years. The transfer pricing and any consequential adjustments to the Company s 2004 and 2005 tax years would impact its income tax liabilities in tax years subsequent to 2005. The Company filed a protest with respect to these adjustments, which caused the matter to be referred to the Appeals Division of the IRS.

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CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In June 2010, the Company reached a settlement in principle with the IRS regarding the income tax deficiencies asserted in the RAR. Under the terms of the settlement in principle, the Company would agree to an assessment of income tax deficiencies in full settlement of all open claims under the RAR and would resolve with finality for future years all of the transfer pricing issues raised in the RAR. Based on this, the Company incurred a charge of approximately $13.1 million in the second quarter of 2010 in accordance with the authoritative guidance. Among other things, the authoritative guidance requires application of a more likely than not threshold to the recognition and non-recognition of tax positions. It further requires that a change in management judgment related to prior years tax positions be recognized in the quarter of such change.

The final settlement requires the finalization of tax deficiency calculations with the IRS and a written agreement signed by the IRS. This process could take several more months to complete. There can be no assurances that a final written agreement will be obtained or that this matter will otherwise be resolved in the Company s favor. An adverse outcome of this matter could have a material adverse effect on the Company s results of operations and financial condition.

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

The Company is required to estimate its income taxes in each of the jurisdictions in which it operates as part of the process of preparing its condensed consolidated financial statements. At September 30, 2010, the Company had approximately $79.1 million in deferred tax assets. The authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company reviews deferred tax assets periodically for recoverability and makes estimates and judgments regarding the expected geographic sources of taxable income and gains from investments, as well as tax planning strategies in assessing the need for a valuation allowance.

The Company maintains certain operational and administrative processes in overseas subsidiaries and its foreign earnings are taxed at lower foreign tax rates. The Company does not expect to remit earnings from its foreign subsidiaries. The Company s effective tax rate was approximately (0.7)% and 13.5% for the three months ended September 30, 2010 and 2009, respectively. The decrease in the effective tax rate when comparing the three months ended September 30, 2010 to the three months ended September 30, 2009 is primarily due to a net tax benefit of $18.5 million that the Company recognized during the third quarter of 2010.

The Company s effective tax rate was approximately 16.2% for the nine months ended September 30, 2010 and 8.7% for the nine months ended September 30, 2009. The increase in the effective tax rate when comparing the nine months ended September 30, 2010 to the nine months ended September 30, 2009 is due primarily to the impact of the charges recorded in conjunction with the Strategic Restructuring Program in 2009, the expiration of the U.S. research and development tax credit on December 31, 2009 and an increase in income in geographic locations taxed at a higher rate. The impact of the charge related to the settlement in principle with the IRS taken during the second quarter of 2010 on the effective tax rate for the nine months ended September 30, 2010 was partially offset by the net tax benefit recognized in third quarter of 2010.

14. TREASURY STOCK

Stock Repurchase Programs

The Company s Board of Directors authorized an ongoing stock repurchase program with a total repurchase authority granted to the Company of $2.5 billion. The Company may use the approved dollar authority to repurchase stock at any time until the approved amount is exhausted. The objective of the Company s stock repurchase program is to improve stockholders returns. At September 30, 2010, approximately $231.2 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock. A portion of the funds used to repurchase stock over the course of the program was provided by proceeds from employee stock option exercises and the related tax benefit.

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CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company is authorized to make open market purchases of its common stock using general corporate funds. Additionally, from time to time, the Company enters into structured stock repurchase arrangements with large financial institutions using general corporate funds in order to lower the average cost to acquire shares. These programs include terms that require the Company to make up-front payments to the counterparty financial institution and result in the receipt of stock during or at the end of the term of the agreement or the receipt of either stock or cash at the maturity of the agreement, depending on market conditions.

During the three months ended September 30, 2010, the Company expended approximately $110.0 million on open market purchases, repurchasing 1,850,200 shares of outstanding common stock at an average price of $59.43. In addition, during the period, the Company made an up-front payment of $15.0 million to a certain financial institution related to a structured stock repurchase agreement. The Company did not receive any shares from its structured stock repurchase agreements during the three months ended September 30, 2010. As of September 30, 2010, the Company had a prepaid notional amount of $15.0 million remaining under its structured stock repurchase agreement, which expires in November 2010. The total shares to be received under the structured repurchase arrangement at September 30, 2010 is not determinable until the contract matures, and therefore the above share amounts exclude the remaining shares to be received subject to this agreement.

During the nine months ended September 30, 2010, the Company expended approximately $309.9 million on open market purchases, repurchasing 6,277,300 shares of outstanding common stock at an average price of $49.37. In addition, during the period, the Company made an up-front payment of $15.0 million to a certain financial institution related to a structured stock repurchase agreement.

During the three months ended September 30, 2009, the Company expended approximately $75.0 million on open market purchases, repurchasing 2,109,030 shares of outstanding common stock at an average price of $35.56. During the nine months ended September 30, 2009, the Company expended approximately $140.0 million on open market purchases, repurchasing 4,531,330 shares of outstanding common stock at an average price of $30.89.

Shares for Tax Withholding

During the three months ended September 30, 2010, the Company withheld 1,627 shares from vested stock units totaling $0.1 million to satisfy tax withholding obligations that arose on the vesting of shares of stock units. During the nine months ended September 30, 2010, the Company withheld 93,228 shares from vested stock units totaling $4.2 million to satisfy tax withholding obligations that arose on the vesting of shares of stock units. These shares are reflected as treasury stock in the Company s condensed consolidated balance sheets and the related cash outlays reduce the Company s total stock repurchase authority.

15. COMMITMENTS AND CONTINGENCIES

Leases

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

The Company has operating lease obligations related to two properties that are not utilized which continue through 2018 with a total remaining obligation at September 30, 2010 of approximately $7.0 million, of which $3.1 million was accrued as of September 30, 2010, and is reflected in accrued expenses and other current liabilities and other liabilities in the accompanying condensed consolidated balance sheets. In calculating these accruals, the Company made estimates, based on market information, including the estimated vacancy periods and sublease rates and opportunities. The Company periodically re-evaluates its estimates related to the vacant facilities.

Asset Retirement Obligation

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company has asset retirement obligations related to the restoration of leased facilities and the removal of certain leasehold improvements. Considerable management judgment is required in estimating these obligations. Important assumptions include estimates of asset retirement costs and the timing of future asset retirement activities. Changes in these assumptions based on future information could result in adjustments to these estimated liabilities.

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CITRIX SYSTEMS, INC.

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(Unaudited)

The Company has an asset retirement obligation related to restoring a property to its original condition. The restoration is anticipated to occur at the end of the lease term in 2016. The total obligation related to this asset retirement obligation as of September 30, 2010 is approximately $4.7 million, of which $1.2 million was accrued and is reflected in other liabilities in the accompanying condensed consolidated balance sheet.

Legal Matters

Due to the nature of the Company s business, it is subject to patent infringement claims, including current suits against it or one or more of its wholly-owned subsidiaries alleging infringement by various Citrix products and services. The Company believes that it has meritorious defenses to the allegations made in its pending cases and intends to vigorously defend these lawsuits; however, it is unable currently to determine the ultimate outcome of these or similar matters or the potential exposure to loss, if any.

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

Guarantees

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

16. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2009, FASB amended the Accounting Standards Codification (ASC) as summarized in Accounting Standards Update (ASU) 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements*, and ASU 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*. As summarized in ASU 2009-14, ASC Topic 985 has been amended to remove from the scope of industry specific revenue accounting guidance for software and software related transactions, tangible products containing software components and non-software components that function together to deliver the product s essential functionality. As summarized in ASU 2009-13, ASC Topic 605 has been amended: (1) to provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) to require an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have VSOE or third-party evidence of selling price; and (3) to eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method. The accounting changes summarized in ASU 2009-14 and ASU 2009-13 are both effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. The Company is in the process of evaluating the potential impact of this standard on its financial position and results of operations.

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ITEM 2. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

Our operating results and financial condition have varied in the past and could in the future vary significantly depending on a number of factors. From time to time, information provided by us or statements made by our employees contain forward-looking information that involves risks and uncertainties. In particular, statements contained in this Quarterly Report on Form 10-Q, and in the documents incorporated by reference into this Quarterly Report on Form 10-Q, that are not historical facts, including, but not limited to statements concerning new products, development and offerings of products and services, market positioning, Product Licenses, License Updates, Online Services, Technical Services, Application Networking, Desktop Solutions, Datacenter and Cloud Solutions, Subscription Advantage, XenApp, NetScaler, XenServer and XenDesktop, legal proceedings, competition and strategy, deferred revenues, stock-based compensation, licensing and subscription renewal programs, intellectual property, international operations, government regulation, the impact of new accounting policies, seasonal factors, sales and sales cycle, revenue recognition, profitability, growth of revenues, composition of revenues, cost of revenues, operating expenses, sales, marketing and services expenses, general and administrative expenses, research and development, valuations of investments and derivative instruments, reinvestment or repatriation of foreign earnings, gross margins, amortization expense, interest income, foreign currency expense, foreign exchange rate fluctuations, fair value measurements, investment transactions (including the AIG Capped Floater and investments in available-for-sale securities), asset retirement activities, changes in domestic and foreign economic conditions and credit markets, the Strategic Restructuring Program and related restructuring charges, including costs associated with the consolidation of excess facilities, customer delays or reductions in technology purchases, anticipated operating and capital expenditure requirements, our cash inflows, cash and non-cash charges, contractual obligations, our Credit Facility, in-process research and development, tax rates, estimates and deductions, transfer pricing, the finalization of our tax settlement and written agreement with the IRS, acquisitions, stock repurchases, liquidity, payment of dividends and third party licenses, constitute forward-looking statements and are made under the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are neither promises nor guarantees. Our actual results of operations and financial condition have varied and could in the future vary significantly from those stated in any forward-looking statements. The factors described in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2009, as updated in Part II, Item 1A in this Quarterly Report on Form 10-Q, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Quarterly Report on Form 10-Q, in the documents incorporated by reference into this Quarterly Report on Form 10-Q or presented elsewhere by our management from time to time. Such factors, among others, could have a material adverse effect upon our business, results of operations and financial condition.

Executive Summary

Overview

Management s discussion and analysis of financial condition and results of operations is intended to help the reader understand our financial condition and results of operations. This section is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2010. The results of operations for the periods presented in this report are not necessarily indicative of the results expected for the full year or for any future period, due in part to the seasonality of our business. Historically, our revenue for the fourth quarter of any year is typically higher than our revenue for the first quarter of the subsequent year.

We design, develop and market technology solutions that enable IT services to be securely delivered on demand independent of location, device or network. Our customers achieve lower IT operating costs, increased information security, and greater business agility using Citrix technologies that enable virtual computing. We market and license our products directly to enterprise customers, over the web, and through systems integrators, or SIs, in addition to indirectly through value-added resellers, or VARs, value-added distributors, or VADs, and original equipment manufacturers, or OEMs.

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

We believe our approach is unique in the market because we have combined innovative technologies in the area of desktop management, including but not limited to desktop virtualization and application virtualization, marketed as our Desktop Solutions, and server virtualization, application networking and optimization, marketed as our Datacenter and Cloud Solutions, to deliver a comprehensive end-to-end application delivery solution, and one that, when considered as a whole, is competitively differentiated by its feature set and interoperability.

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The global recession that started in 2008 impacted IT spending, and we see uncertainties remaining in today s economic environment. For example, there is continued uncertainty surrounding IT spending in the European markets as we enter the fourth quarter of 2010. The overall uncertainty in this area may adversely affect sales of our products and services and may result in longer sales cycles, slower adoption of technologies and increased price competition.

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

We expect to see continued interest in desktop virtualization as customers are making strategic purchases that include both XenDesktop and XenApp due to our current programs. XenApp and XenDesktop, for example, can reduce the cost of traditional desktop management by virtualizing the desktop and applications in a customer s datacenter, where they are more easily and efficiently maintained. XenServer and NetScaler can alter the traditional economies of the datacenter by providing much greater levels of flexibility of computing resources, especially with respect to servers, by improving application performance and thereby reducing the amount of processing power involved, and allowing easy reconfiguration of servers for multiple purposes. Our Online Services division is focused on developing and marketing Web-based access, support and collaboration software and services. These services are primarily marketed via the Web to individuals, prosumers and small businesses. Our web collaboration services from our Online Services division offer secure and cost-effective solutions that allow users to host and actively participate in online meetings, webinars and training sessions remotely and reduce costs associated with business travel. Our web connectivity solution offers a secure, simple and cost efficient way for users to access their desktops remotely, and our remote support solution offers secure, on-demand support over the Internet.

Further, we will endeavor to sustain the long-term growth of our businesses and enhance our current solutions through technological innovation, engineering excellence, selective and strategic acquisition of technology, talent and/or companies, and through a commitment to delivering high-quality products and services to customers and partners. We expect to continue to make strategic investments in research and development of existing and new products, and to invest in research and development of advanced technologies for future application, including increasing research and development capacity and headcount. We believe that delivering innovative and high-value solutions through our Enterprise division s products and our Online Services division s services is the key to meeting customer and partner needs and achieving our future growth. In addition, we expect to continue to grow our Online Services division by increasing our addressable market geographically and offering services that appeal to a wider range of customers. We also intend to make a significant investment in brand awareness and increased sales, consulting and technical services capacity and headcount to drive larger strategic customer engagements and more focus on SI partnerships as well as investing in new channel programs that allow our partners to upgrade their capabilities in desktop virtualization, which we currently believe is our largest area of opportunity.

On January 28, 2009, we announced the implementation of a strategic restructuring program, or the Strategic Restructuring Program. The Strategic Restructuring Program included reducing our headcount by approximately 450 full-time positions. In the nine months ended September 30, 2009, we incurred a pre-tax charge of $22.8 million related to employee severance and related costs and costs related to the consolidation of certain of our facilities.

Summary of Results

For the three months ended September 30, 2010 compared to the three months ended September 30, 2009, a summary of our results is as follows:

- Product License revenue increased 17.6% to $151.8 million;
- License Updates revenue increased 15.3% to $174.1 million;
- Online Services revenue increased 16.2% to $91.7 million;

Technical Services revenue increased 30.0% to $54.7 million;

Operating income increased 45.2% to $81.5 million; and

Diluted earnings per share increased 60.3% to $0.46.

The increase in our Product License revenue was primarily driven by increased sales of our Datacenter and Cloud Solutions products, led by our Application Networking products. We currently expect our Product License revenue to increase when comparing the fourth quarter of 2010 to the third quarter of 2010. The increase in License Updates revenue was driven by sales of new licenses with Subscription Advantage. Our Online Services revenue increased due to increased sales of our web collaboration services. The increase in Technical Services revenue was primarily driven by increased sales of support and consulting services related to our Datacenter and Cloud Solutions and Desktop Solutions products. Our increase in operating income and diluted earnings per share was

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driven by our increased revenue as well as efficiencies gained by managing our overall operating expenses. The increase in diluted earnings per share also included a net tax benefit of $18.5 million recognized during the quarter. We currently expect that total revenue will increase when comparing the fourth quarter of 2010 to the third quarter of 2010, as well as when comparing the 2010 fiscal year to the 2009 fiscal year.

2010 Acquisitions

On September 7, 2010, we acquired all of the issued and outstanding securities of VMLogix Inc., or VMLogix, a privately held Delaware corporation headquartered in Santa Clara, California. VMLogix is a provider of virtualization management software for private and public cloud computing systems. The total consideration for this transaction was approximately $15.3 million, comprised of approximately $12.2 million in cash and approximately $3.1 million related to VMLogix liabilities settled in conjunction with the acquisition. The sources of funds for this transaction consisted of available cash. We recorded approximately $10.5 million of goodwill, which is not deductible for tax purposes, and acquired $9.3 million in assets including $7.5 million of identifiable intangible assets. We assumed liabilities of approximately $4.5 million in conjunction with the acquisition. In addition, we also assumed stock options for which the vesting period reset fully upon the closing of the transaction. When these stock options vest, they will be exercisable for 47,784 shares of our common stock. We have included the effect of this transaction in our results of operations prospectively from the date of the acquisition, which effect was not material to our consolidated results.

During the first quarter of 2010, we acquired two privately-held companies for a total cash consideration of approximately $9.2 million. We recorded approximately $3.7 million of goodwill, which is not deductible for tax purposes, and acquired $8.3 million in assets including $7.1 million of identifiable intangible assets. In addition, we assumed liabilities of approximately $2.8 million in conjunction with the acquisitions. We have included the effects of these transactions in our results of operations prospectively from the respective dates of the acquisitions, which were not material to our consolidated results.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. We base these estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances, and these estimates form the basis for our judgments concerning the carrying values of assets and liabilities that are not readily apparent from other sources. We periodically evaluate these estimates and judgments based on available information and experience. Actual results could differ from our estimates under different assumptions and conditions. If actual results significantly differ from our estimates, our financial condition and results of operations could be materially impacted. For more information regarding our critical accounting policies and estimates please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates contained in our Annual Report on Form 10-K for the year ended December 31, 2009 and Note 2 to our condensed consolidated financial statements. There have been no material changes to the critical accounting policies previously disclosed in that report.

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Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended	Nine Months Ended
	2010	2009	2010	2009	September 30, 2010 vs. September 30, 2009	September 30, 2010 vs. September 30, 2009
Revenues:						
Product licenses	**$ 151,758**	$ 129,060	**$ 423,197**	$ 370,652	17.6%	14.2%
License updates	**174,128**	151,041	**505,684**	448,573	15.3	12.7
Online services	**91,660**	78,878	**265,821**	226,208	16.2	17.5
Technical services	**54,687**	42,063	**150,236**	117,495	30.0	27.9
Total net revenues	**472,233**	401,042	**1,344,938**	1,162,928	17.8	15.7
Cost of net revenues:						
Cost of product license revenues	**19,325**	13,191	**47,125**	36,191	46.5	30.2
Cost of services revenues	**25,934**	20,685	**75,613**	63,440	25.4	19.2
Amortization of product related intangible assets	**12,539**	11,542	**37,314**	35,064	8.6	6.4
Total cost of net revenues	**57,798**	45,418	**160,052**	134,695	27.3	18.8
Gross margin	**414,435**	355,624	**1,184,886**	1,028,233	16.5	15.2
Operating expenses:						
Research and development	**87,399**	68,865	**244,644**	215,062	26.9	13.8
Sales, marketing and services	**174,734**	168,233	**531,855**	498,952	3.9	6.6
General and administrative	**67,404**	57,254	**188,828**	175,295	17.7	7.7
Amortization of other intangible assets	**3,334**	5,111	**11,267**	15,268	(34.8)	(26.2)
Restructuring	**87**	61	**922**	22,827	42.6	(96.0)
Total operating expenses	**332,958**	299,524	**977,516**	927,404	11.2	5.4
Income from operations	**81,477**	56,100	**207,370**	100,829	45.2	105.7
Interest income	**3,638**	4,059	**11,031**	11,167	(10.4)	(1.2)
Interest expense	**(131)**	(85)	**(272)**	(243)	54.1	11.9
Other income (expense), net	**2,193**	1,651	**(251)**	939	32.8	(126.7)
Income before income taxes	**87,177**	61,725	**217,878**	112,692	41.2	93.3
Income taxes	**(602)**	8,302	**35,193**	9,823	(107.3)	258.3
Net income	**$ 87,779**	$ 53,423	**$ 182,685**	$ 102,869	64.3%	77.6%

Revenues

Net revenues of our Enterprise division include the following categories: Product Licenses, License Updates and Technical Services. Product Licenses primarily represent fees related to the licensing of the following major products:

- Our Desktop Solutions, comprised primarily of our desktop virtualization product XenDesktop and our application virtualization product XenApp; and

- Our Datacenter and Cloud Solutions, comprised primarily of our virtual infrastructure products, XenServer and Essentials for Hyper-V and our application networking products NetScaler, Access Gateway and Branch Repeater.

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

License Updates consist of fees related to our Subscription Advantage program that are recognized ratably over the term of the contract, which is typically 12 to 24 months. Subscription Advantage is an annual renewable program that provides subscribers with automatic delivery of unspecified software upgrades, enhancements and maintenance releases when and if they become available

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during the term of the subscription. Technical Services revenues are comprised of fees from technical support services which are recognized ratably over the contract term, as well as revenues from product training and certification, and consulting services revenue related to implementation of our products, which is recognized as the services are provided.

Our Online Services division s revenues consist of fees related to online service agreements from our web collaboration products which primarily include our GoToMeeting, GoToWebinar, Hi-Def Audio, and GoToTraining services, our connectivity service, GoToMyPC, and our remote support services which primarily include GoToAssist. Our Online Services revenue is recognized ratably over the contract term.

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,	Nine Months Ended September 30,
	2010	2009	2010	2009	2010 vs. September 30, 2009	2010 vs. September 30, 2009
			(In thousands)			
Product Licenses	**$ 151,758**	$ 129,060	**$ 423,197**	$ 370,652	$ 22,698	$ 52,545
License Updates	**174,128**	151,041	**505,684**	448,573	23,087	57,111
Online Services	**91,660**	78,878	**265,821**	226,208	12,782	39,613
Technical Services	**54,687**	42,063	**150,236**	117,495	12,624	32,741
Total net revenues	**$ 472,233**	$ 401,042	**$ 1,344,938**	$ 1,162,928	$ 71,191	$ 182,010

Product Licenses

Product License revenue increased for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 primarily due to an increase in sales of our Datacenter and Cloud Solutions products, led by our Application Networking products. Product License revenues increased for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 primarily due to increases in sales of our Datacenter and Cloud Solutions of $32.0 million and our Desktop Solutions products of $21.9 million. These increases in Product License revenue were primarily due to the factors discussed in the Executive Summary above. We currently expect Product License sales to increase when comparing the fourth quarter of 2010 to the fourth quarter of 2009 due to the factors discussed in the Executive Summary above.

License Updates

License Updates revenue increased for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 primarily due to an increase in Subscription Advantage, led by XenDesktop product sales. License Update revenue increased for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 primarily due to an increase in Subscription Advantage, led by XenDesktop product sales of $39.8 million and to a lesser extent renewals of Subscription Advantage over a larger base of subscribers of $17.3 million. We currently anticipate that License Updates revenue will increase when comparing the fourth quarter of 2010 to the fourth quarter of 2009.

Online Services

Online Services revenue increased for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 and for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 primarily due to increased sales of our web collaboration services. We currently expect Online Services revenues to continue to increase when comparing the fourth quarter of 2010 to the fourth quarter of 2009 primarily due to anticipated growth in sales of our web collaboration services.

Technical Services

Technical Services revenue increased for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 due to increased sales of support services primarily related to our Datacenter and Cloud Solutions products. Technical Services revenue increased for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 due to increased sales of support services primarily related to our Datacenter and Cloud Solutions products of $22.4 million and an increase in consulting services of $9.5 million primarily related to implementation services for our Enterprise division products. We currently expect Technical Services sales to

increase when comparing the fourth quarter of 2010 to the fourth quarter of 2009 consistent with the increase in Product License revenues as discussed above.

Deferred Revenue

Deferred revenues are primarily comprised of License Updates revenue from Subscription Advantage, Technical Services revenues related to our support services and consulting contracts and Online Services revenues from annual service agreements for our

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Online Services. Deferred revenues increased approximately $61.3 million as of September 30, 2010 compared to December 31, 2009 primarily due to increased sales of our Subscription Advantage product of $31.0 million, increased sales of our support services of $21.8 million and increased sales of our online service agreements of $7.0 million. We currently expect deferred revenues to increase for the remainder of 2010 primarily due to anticipated increases in Subscription Advantage related to XenDesktop sales as discussed in the Executive Summary above.

International Revenues

International revenues (sales outside the United States) accounted for approximately 41.3% of our net revenues for the three months ended September 30, 2010 and 42.1% of our net revenues for the three months ended September 30, 2009. International revenues accounted for approximately 42.2% of our net revenues for the nine months ended September 30, 2010 and 42.6% of our net revenues for the nine months ended September 30, 2009. See Note 9 to our condensed consolidated financial statements for detailed information on net revenues by geography.

Segment Revenues

During the first quarter of 2010, we changed how we measure profitability internally, develop our annual plan and allocate our resources from a geography-based approach (which included the Americas; Europe, the Middle East and Africa; Asia-Pacific and our Online Services division), to a product division-based approach. This change reflects how we market and sell our products. Accordingly, we have revised our reportable segments to reflect the way we are currently managing and viewing the business. Our revenues are derived from sales of Enterprise division products which primarily include our Desktop Solutions, Datacenter and Cloud Solutions products and related technical services and from our Online Services division s web collaboration, connectivity and remote support services. The Enterprise division and the Online Services division constitute our two reportable segments.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Increase for the Three Months Ended	Increase for the Nine Months Ended
	2010	2009	2010	2009	September 30, 2010 vs. September 30, 2009	September 30, 2010 vs. September 30, 2009
Enterprise division	**$ 380,573**	$ 322,164	**$ 1,079,117**	$ 936,720	18.1%	15.2%
Online Services division	**91,660**	78,878	**265,821**	226,208	16.2	17.5
Net revenues	**$ 472,233**	$ 401,042	**$ 1,344,938**	$ 1,162,928	17.8%	15.7%

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

Cost of Net Revenues

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended	Nine Months Ended
	2010	2009	2010	2009	September 30, 2010 vs. September 30, 2009	September 30, 2010 vs. September 30, 2009
			(In thousands)			
Cost of product license revenues	**$ 19,325**	$ 13,191	**$ 47,125**	$ 36,191	$ 6,134	$ 10,934
Cost of services revenues	**25,934**	20,685	**75,613**	63,440	5,249	12,173
Amortization of product related intangible assets	**12,539**	11,542	**37,314**	35,064	997	2,250
Total cost of net revenues	**$ 57,798**	$ 45,418	**$ 160,052**	$ 134,695	$ 12,380	$ 25,357

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

Cost of product license revenues increased for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 and for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009

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primarily due to increased sales of our Datacenter and Cloud Solutions products, some of which contain hardware components that have a higher cost than our other software products. We currently anticipate cost of product license revenues will increase when comparing the fourth quarter of 2010 to the fourth quarter of 2009 consistent with the anticipated increase in Product License sales.

Cost of services revenues increased for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 and for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 primarily due to an increase in sales of technical services related to our Enterprise division products. We currently anticipate cost of services revenues will increase when comparing the fourth quarter of 2010 to the fourth quarter of 2009 consistent with the anticipated increase in sales of our Enterprise division s consulting and support services and as we continue to improve and expand our web collaboration offerings.

Gross Margin

Gross margin as a percentage of revenue was 87.8% for the three months ended September 30, 2010 and 88.7% for the three months ended September 30, 2009. Gross margin as a percentage of revenue was 88.1% for the nine months ended September 30, 2010 and 88.4% for the nine months ended September 30, 2009.

Operating Expenses

Foreign Currency Impact on Operating Expenses

A substantial majority of our overseas operating expenses and capital purchasing activities are transacted in local currencies and are therefore subject to fluctuations in foreign currency exchange rates. In order to minimize the impact on our operating results, we generally initiate our hedging of currency exchange risks up to 15 months in advance of anticipated foreign currency expenses. When the dollar is weak, the resulting increase to foreign currency denominated expenses will be partially offset by the gain in our hedging contracts. When the dollar is strong, the resulting decrease to foreign currency denominated expenses will be partially offset by the aggregate loss in our hedging contracts. There is a risk that there will be fluctuations in foreign currency exchange rates beyond the one-year timeframe for which we hedge our risk. When comparing the three months ended September 30, 2010 to the three months ended September 30, 2009, we experienced losses in our hedging programs primarily due to the overall stronger dollar compared to major currencies at the time we entered into the contracts, which is typically one year in advance of the hedged expenses occurring. When comparing the nine months ended September 30, 2010 to the nine months ended September 30, 2009, we experienced gains in our hedging programs primarily due to the overall weaker dollar compared to most major currencies over the period hedged.

Research and Development Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended	Nine Months Ended
	2010	2009	2010	2009	September 30, 2010 vs. September 30, 2009	September 30, 2010 vs. September 30, 2009
			(In thousands)			
Research and development	**$ 87,399**	$ 68,865	**$ 244,644**	$ 215,062	$ 18,534	$ 29,582

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

Research and development expenses increased for the three and nine months ended September 30, 2010 compared to the three and nine months ended September 30, 2009 primarily due to an increase in compensation and other employee related costs due to the strategic hiring of headcount in research and development as discussed above in our Executive Summary. We expect research and development expense to increase when comparing the fourth quarter of 2010 to the fourth quarter of 2009 as we continue to develop existing and new products as well as invest in research and development of advanced technologies for future application.

Sales, Marketing and Services Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended	Nine Months Ended
	2010	2009	2010	2009	September 30, 2010 vs. September 30, 2009	September 30, 2010 vs. September 30, 2009
				(In thousands)		
Sales, marketing and services	**$ 174,734**	$ 168,233	**$ 531,855**	$ 498,952	$ 6,501	$ 32,903

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

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market development programs and costs related to our facilities, equipment and information systems that are directly related to our sales, marketing and services activities.

Sales, marketing and services expenses increased for the three and nine months ended September 30, 2010 compared to the three and nine months ended September 30, 2009 primarily due to an increase in compensation including variable compensation and employee related costs due to additional headcount in our sales force and technical services group. We expect sales, marketing and services expenses to increase when comparing the fourth quarter of 2010 to the fourth quarter of 2009 as we promote brand awareness and increase sales and technical services capacity.

General and Administrative Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30, 2010 vs. September 30, 2009	Nine Months Ended September 30, 2010 vs. September 30, 2009
	2010	2009	2010	2009		
			(In thousands)			
General and administrative	**$ 67,404**	$ 57,254	**$ 188,828**	$ 175,295	$ 10,150	$ 13,533

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

General and administrative expenses increased for the three and nine months ended September 30, 2010 compared to the three and nine months ended September 30, 2009 primarily due to an increase in compensation and employee related costs due to additional headcount, primarily in IT. We currently anticipate that general and administrative expenses will increase slightly when comparing the fourth quarter of 2010 to the fourth quarter of 2009 primarily due to investments in IT to support our growth.

Amortization of Other Intangible Assets

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30, 2010 vs. September 30, 2009	Nine Months Ended September 30, 2010 vs. September 30, 2009
	2010	2009	2010	2009		
			(In thousands)			
Amortization of other intangible assets	**$ 3,334**	$ 5,111	**$ 11,267**	$ 15,268	$ (1,777)	$ (4,001)

The decrease in amortization of other intangible assets when comparing the three months ended September 30, 2010 to the three months ended September 30, 2009 and the nine months ended September 30, 2010 to the nine months ended September 30, 2009 was primarily due to certain assets becoming fully amortized during the period. As of September 30, 2010, we had unamortized other identified intangible assets with estimable useful lives in the net amount of $38.7 million.

Restructuring Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30, 2010 vs. September 30, 2009	Nine Months Ended September 30, 2010 vs. September 30, 2009
	2010	2009	2010	2009		
			(In thousands)			
Restructuring	**$ 87**	$ 61	**$ 922**	$ 22,827	$ 26	$ (21,905)

On January 28, 2009, we announced the implementation of the Strategic Restructuring Program, which primarily included the reduction of our headcount by approximately 450 full-time positions. The pre-tax charges we incurred were primarily related to severance and other costs directly related to the reduction of our workforce and costs related to the consolidation of certain of our facilities. The restructuring program was completed by the end of 2009. For more information, see Executive Summary Overview and Note 10 to our condensed consolidated financial statements.

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Interest Income

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30, 2010 vs. September 30, 2009	Nine Months Ended September 30, 2010 vs. September 30, 2009
	2010	2009	2010	2009		
			(In thousands)			
Interest income	**$ 3,638**	$ 4,059	**$ 11,031**	$ 11,167	$ (421)	$ (136)

Interest income decreased for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 and for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 primarily due to decreased interest rates earned which was partially offset by overall higher average cash, cash equivalent and investment balances. For more information, see Liquidity and Capital Resources.

Other Income (Expense), Net

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30, 2010 vs. September 30, 2009	Nine Months Ended September 30, 2010 vs. September 30, 2009
	2010	2009	2010	2009		
			(In thousands)			
Other income (expense), net	**$ 2,193**	$ 1,651	**$ (251)**	$ 939	$ 542	$ (1,190)

Other income (expense), net, is primarily comprised of remeasurement of foreign currency transaction gains (losses) and realized gains (losses) related to changes in the fair value of our investments that have a decline in fair value that is considered other-than-temporary, if any, and recognized gains (losses) on the sale of available-for-sale investments. The increase in other income (expense), net, during the three months ended September 30, 2010 compared to the three months ended September 30, 2009 is primarily due to an increase in gains related to the remeasurement of our foreign currency transactions due to the weakening of the U.S. dollar during the remeasurement period. The decrease in other income (expense), net, during the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 is primarily due to realized losses related to certain of our investments in marketable securities.

Income Taxes

As of September 30, 2010, our net unrecognized tax benefits totaled approximately $58.2 million. There were no amounts included in the balance at September 30, 2010 for tax positions, which would not affect the annual effective tax rate and approximately $1.2 million of accrued interest on tax positions, which is included in income tax expense.

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

In June 2010, we reached a settlement in principle with the IRS regarding the income tax deficiencies asserted in the Revenue Agent s Report, or RAR. Under the terms of the settlement in principle, we would agree to an assessment of income tax deficiencies in full settlement of all open claims under the RAR and would resolve with finality for future years all of the transfer pricing issues raised in the RAR. Based on this, we incurred a charge of $13.1 million in the second quarter of 2010 in accordance with the authoritative guidance. Among other things, the authoritative guidance requires application of a more likely than not threshold to the recognition and non-recognition of tax positions. It further requires that a change in management judgment related to prior years tax positions be recognized in the quarter of such change.

The final settlement requires the finalization of tax deficiency calculations with the IRS and a written agreement signed by the IRS. This process could take several more months to complete. There can be no assurances that a final written agreement will be obtained or that this matter will otherwise be resolved in our favor. An adverse outcome of this matter could have a material adverse effect on our results of operations and financial condition.

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

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We are required to estimate our income taxes in each of the jurisdictions in which we operate as part of the process of preparing our condensed consolidated financial statements. At September 30, 2010, we had approximately $79.1 million in deferred tax assets. The authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We review deferred tax assets periodically for recoverability and make estimates and judgments regarding the expected geographic sources of taxable income and gains from investments, as well as tax planning strategies in assessing the need for a valuation allowance.

We maintain certain operational and administrative processes in overseas subsidiaries and our foreign earnings are taxed at lower foreign tax rates. We do not expect to remit earnings from our foreign subsidiaries. Our effective tax rate was approximately (0.7)% for the three months ended September 30, 2010 and 13.5% for the three months ended September 30, 2009. The decrease in the effective tax rate when comparing the three months ended September 30, 2010 to the three months ended September 30, 2009 is primarily due to a net tax benefit of $18.5 million that we recognized during the third quarter of 2010.

Our effective tax rate was approximately 16.2% for the nine months ended September 30, 2010 and 8.7% for the nine months ended September 30, 2009. The increase in the effective tax rate when comparing the nine months ended September 30, 2010 to the nine months ended September 30, 2009 is due primarily to the impact of the charges recorded in conjunction with the Strategic Restructuring Program in 2009, the expiration of the U.S. research and development tax credit on December 31, 2009 and an increase in income in geographic locations taxed at a higher rate. The impact of the charge related to the settlement in principle with the IRS taken during the second quarter of 2010 on the effective tax rate for the nine months ended September 30, 2010 was partially offset by the net tax benefit recognized in third quarter of 2010.

Liquidity and Capital Resources

During the nine months ended September 30, 2010, we generated positive operating cash flows of $437.0 million. These operating cash flows related primarily to net income of $182.7 million, adjusted for, among other things, non-cash charges, including depreciation and amortization expenses of $102.6 million, stock-based compensation expense of $83.9 million and the tax effect of stock-based compensation of $36.8 million. Also contributing to these cash inflows was an aggregate increase in operating assets and liabilities of $67.3 million, net of effects of our acquisitions. These cash inflows are partially offset by an operating cash outflow of $43.1 million related to the excess tax benefit due to the exercise of stock-based awards. Our investing activities used $325.9 million of cash consisting primarily of cash paid for net purchases of investments of $235.7 million and the purchase of property and equipment of $53.1 million. Also contributing to these cash outflows was cash paid for acquisitions and licensing agreements and product related intangible assets of $33.6 million. Our financing activities provided cash of $24.8 million primarily due to proceeds received from the issuance of common stock under our employee stock-based compensation plans of $310.8 million and $43.1 million related to excess tax benefits from the exercise of stock-based awards. These financing cash inflows were partially offset by stock repurchases of $324.9 million.

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

Historically, significant portions of our cash inflows were generated by our operations. We currently expect this trend to continue throughout 2010. We believe that our existing cash and investments together with cash flows expected from operations will be sufficient to meet expected operating and capital expenditure requirements for the next 12 months.

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Cash, Cash Equivalents and Investments

	September 30, 2010	December 31, 2009	2010 Compared to 2009
		(In thousands)	
Cash, cash equivalents and investments	**$ 1,591,390**	$ 1,207,257	$ 384,133

The increase in cash, cash equivalents and investments when comparing September 30, 2010 to December 31, 2009, is primarily due to cash provided by our operating activities of $437.0 million and cash received from the issuance of common stock under our employee stock-based compensation plans of $310.8 million partially offset by expenditures made on stock repurchases of $324.9 million and purchases of property and equipment of $53.1 million. See Liquidity and Capital Resources. We generally invest our cash and cash equivalents in investment grade, highly liquid securities to allow for flexibility in the event of immediate cash needs. Our short-term and long-term investments consist of interest-bearing securities.

Available-for-sale investments

As of September 30, 2010, the unrealized loss related to our $50.0 million face value investment issued by AIG Matched Funding Corporation, or the AIG Capped Floater, was $0.7 million, and is included in accumulated other comprehensive income (loss). As of the date of this report, American International Group, Inc., or AIG, has not been reported to have defaulted on capital repayments to holders of its recently matured debt. Because we do not intend to sell the AIG Capped Floater and it is more likely than not that we will not be required to sell the security before the recovery of its amortized cost basis, which may not occur until maturity, we do not consider the security to be other-than-temporarily impaired.

Trading Investments

We held municipal auction rate securities, the majority of which were triple-A rated, whose underlying assets were generally student loans that were substantially backed by the federal government under the Federal Family Education Loan Program through investment accounts managed by UBS Financial Services, Inc., or UBS. The market for municipal auction rate securities in our portfolio began experiencing auction failures in 2008. In November 2008, we formally accepted the terms of a settlement, or the Settlement, from UBS. Upon accepting the terms of the Settlement, we received an enforceable, non-transferrable right, or the Put Option, that enabled us to sell our auction rate securities back to UBS. On June 30, 2010, we exercised the Put Option and sold all of our remaining investments in auction rate securities back to UBS at par. During 2010, we realized a gain of $6.0 million related to the sale of our investments in auction rate securities and a corresponding loss of $6.0 million related to the settlement of the Put Option, both of which are included in other income (expense), net, in our condensed consolidated statements of income. See Notes 5 and 6 to our condensed consolidated financial statements.

Fair Value Measurements

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

In order to measure the AIG Capped Floater at fair value we used a discounted cash flow model. We then discounted those cash flows at a rate reflecting the market risk inherent in holding an AIG security with a similar maturity as evidenced by pricing in the

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markets. Since utilizing a discounted cash flow model required us to make assumptions that were not directly or indirectly observable regarding the AIG Capped Floater s fair value, accordingly it is a Level 3 valuation and is included in the table below.

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

	Put Option	Long-term Investments	Total
		(In thousands)	
Balance at December 31, 2009	$ 6,048	$ 83,785	$ 89,833
Proceeds received on Level 3 securities		(44,560)	(44,560)
Decrease in previously recognized unrealized losses included in accumulated other comprehensive loss		4,253	4,253
Total realized (losses) gains included in earnings	(6,048)	5,871	(177)
Balance at September 30, 2010	$	$ 49,349	$ 49,349

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

Accounts Receivable, Net

	September 30, 2010	December 31, 2009	2010 Compared to 2009
		(In thousands)	
Accounts receivable	**$ 277,663**	$ 309,748	$ (32,085)
Allowance for returns	**(681)**	(1,617)	936
Allowance for doubtful accounts	**(3,696)**	(3,219)	(477)
Accounts receivable, net	**$ 273,286**	$ 304,912	$ (31,626)

The decrease in accounts receivable when comparing September 30, 2010 to December 31, 2009 was primarily due to higher sales during the last month of the fourth quarter of 2009 compared to the last month of the third quarter of 2010. The activity in our allowance for returns was comprised primarily of $1.9 million in credits issued for returns during the first nine months of 2010 partially offset by $1.0 million of provisions for returns recorded in the first nine months of 2010. The activity in our allowance for doubtful accounts was comprised primarily of $1.9 million in additional provisions for doubtful accounts recorded during the first nine months of 2010 partially offset by $1.4 million of uncollectible accounts written off, net of recoveries. From time to time, we could maintain individually significant accounts receivable balances from our distributors or customers, which are comprised of large business enterprises, governments and small and medium-sized businesses. If the financial condition of our distributors or customers deteriorates, our operating results could be adversely affected.

Credit Facility

Effective on August 9, 2005, we entered into a revolving credit facility, or the Credit Facility, with a group of financial institutions, or the Lenders. Effective September 27, 2006, we entered into an amendment and restatement of the Credit Facility, or the Amendment. The Amendment decreased the overall range of interest we will pay on amounts outstanding on the Credit Facility and lowered the facility fee. In addition, the Amendment extended the term of the Credit Facility. The Credit Facility, as amended, allows us to increase the revolving credit commitment up to a maximum aggregate revolving credit commitment of $175.0 million. The Credit Facility, as amended, will expire on September 27, 2011 and it currently provides for a revolving line of credit in the aggregate amount of $100.0 million, subject to continued covenant compliance. A portion of the revolving line of credit (1) in the aggregate amount of $25.0 million may be available for issuances of letters of credit and (2) in the aggregate amount of $15.0 million may be available for swing line loans. The Credit Facility, as amended, currently bears interest at the London Interbank Offered Rate, or LIBOR, plus 0.32% and adjusts in the future in the range of 0.32% to 0.80% above LIBOR based on the level of our total debt and our adjusted earnings before interest, taxes, depreciation and amortization, or EBITDA. In

addition, we are required to pay an annual facility fee ranging from 0.08% to 0.20% based on the aggregate amount available under the Credit Facility, as amended, and the level of our total debt and adjusted EBITDA. During the three months ended September 30, 2010, no funds were borrowed under the Credit Facility, as amended, and as of September 30, 2010 there were no amounts outstanding under the Credit Facility, as amended.

The Credit Facility, as amended, contains customary default provisions, and we must comply with various financial and non-financial covenants. The financial covenants consist of a minimum interest coverage ratio and a maximum consolidated leverage ratio. The primary non-financial covenants contain certain limits on our ability to pay dividends, conduct certain mergers or acquisitions,

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make certain investments and loans, incur future indebtedness or liens, alter our capital structure or sell stock or assets. As of September 30, 2010, we were in compliance with all covenants of the Credit Facility.

Stock Repurchase Program

Our Board of Directors authorized an ongoing stock repurchase program with a total repurchase authority granted to us of $2.5 billion. We may use the approved dollar authority to repurchase stock at any time until the approved amounts are exhausted. The objective of our stock repurchase program is to improve stockholders returns. At September 30, 2010, approximately $231.2 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock. A portion of the funds used to repurchase stock over the course of the program was provided by proceeds from employee stock option exercises and the related tax benefit.

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

During the three months ended September 30, 2010, we expended approximately $110.0 million on open market purchases, repurchasing 1,850,200 shares of outstanding common stock at an average price of $59.43. In addition, during the period, we made an up-front payment of $15.0 million to a certain financial institution related to a structured stock repurchase agreement. We did not receive any shares from our structured stock repurchase agreements during the three months ended September 30, 2010. As of September 30, 2010, we had a prepaid notional amount of $15.0 million remaining under our structured stock repurchase agreement, which expires in November 2010.

During the nine months ended September 30, 2010, we expended approximately $309.9 million on open market purchases, repurchasing 6,277,300 shares of outstanding common stock at an average price of $49.37. In addition, during this period, we made an up-front payment to a certain financial institution related to a structured stock repurchase agreement.

During the three months ended September 30, 2009, we expended approximately $75.0 million on open market purchases, repurchasing 2,109,030 shares of outstanding common stock at an average price of $35.56. During the nine months ended September 30, 2009, we expended approximately $140.0 million on open market purchases, repurchasing 4,531,330 shares of outstanding common stock at an average price of $30.89.

Shares for Tax Withholding

During the three months ended September 30, 2010, we withheld 1,627 shares from vested stock units totaling $0.1 million to satisfy tax withholding obligations that arose on the vesting of stock units. During the nine months ended September 30, 2010, we withheld 93,228 shares from vested stock units totaling $4.2 million to satisfy tax withholding obligations that arose on the vesting of stock units. These shares are reflected as treasury stock in our condensed consolidated balance sheet and the related cash outlays reduce our total repurchase authority.

Office Leases

We have operating lease obligations related to two properties that are not utilized which continue through 2018 with a total remaining obligation at September 30, 2010 of approximately $7.0 million, of which $3.1 million was accrued as of September 30, 2010, and is reflected in accrued expenses and other current liabilities and other liabilities in our condensed consolidated financial statements. In calculating this accrual, we made estimates, based on market information, including the estimated vacancy periods and sublease rates and opportunities. We periodically re-evaluate our estimates related to the vacant facilities.

Asset Retirement Obligation

We recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. We have asset retirement obligations related to the restoration of leased facilities and the removal of certain leasehold improvements. Considerable management judgment is required in estimating these obligations. Important assumptions include estimates of asset retirement costs and the timing of future asset retirement activities. Changes in these assumptions based on future information could result in adjustments to these estimated liabilities.

We have an asset retirement obligation related to restoring a property to its original condition. The restoration is anticipated to occur at the end of the lease term in 2016. The total obligation related to this asset retirement obligation as of September 30, 2010 is approximately $4.7 million, of which $1.2 million was accrued and is reflected in other liabilities in our condensed consolidated balance sheet.

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Off-Balance Sheet Arrangements

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

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

There have been no material changes with respect to the information appearing in Part II, Item 7A., Quantitative and Qualitative Disclosures About Market Risk, of our Annual Report on Form 10-K for the year ended December 31, 2009.

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

Evaluation of Disclosure Controls and Procedures

As of September 30, 2010, our management, with the participation of our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer concluded that, as of September 30, 2010, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, including ensuring that such material information is accumulated by and communicated to our management, including our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

In July 2010, we completed a multi-year global initiative to re-implement our enterprise resource planning system, SAP. As part of this initiative, we simplified and standardized global business processes, improved existing functionality and introduced new functionality primarily related to internal reporting and improved visibility across the business. As a result, our internal controls over financial reporting as related to the re-implementation of SAP have changed during the quarter ended September 30, 2010.

Except as described above, there were no changes in our internal control over financial reporting during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially effect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. ***LEGAL PROCEEDINGS***

Due to the nature of our business, we are subject to patent infringement claims, including current suits against us or one or more of our wholly-owned subsidiaries alleging infringement by various Citrix products and services. We believe that we have meritorious defenses to the allegations made in these pending suits and intend to vigorously defend these lawsuits; however, we are unable currently to determine the ultimate outcome of these or similar matters or the potential exposure to loss, if any.

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

Further information with respect to this Item may be found in Note 13 to our condensed consolidated financial statements, which information is incorporated into this Part II, Item 3 by reference.

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

The following information updates, and should be read in conjunction with, the information disclosed in Part 1, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed with the Securities and Exchange Commission on February 23, 2010. There have been no material changes in our risk factors from those disclosed in Part 1, Item 1A., Risk Factors of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

ITEM 2. ***UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***

Purchases of Equity Securities by the Issuer

Our Board of Directors has authorized an ongoing stock repurchase program with a total repurchase authority granted to us of $2.5 billion. The objective of the stock repurchase program is to improve stockholders returns. At September 30, 2010, approximately $231.2 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock. The following table shows the monthly activity related to our stock repurchase program for the quarter ended September 30, 2010:

	(a) Total Number of Shares (or Units) Purchased [1][2]	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or approximate dollar value) of Shares (or Units) that may yet be Purchased under the Plans or Programs [3]
July 1, 2010 through July 31, 2010	45,500	$ 54.91	45,500	$ 353,719
August 1, 2010 through August 31, 2010	1,199,180	57.81	1,199,180	269,391
September 1, 2010 through September 30, 2010	607,147	62.97	607,147	231,157
Total	1,851,827	$ 59.43	1,851,827	$ 231,157

(1) Represents shares acquired in open market purchases. We expended approximately $125.0 million during the quarter ended September 30, 2010 related to our stock repurchase program. For more information see Note 14 to our condensed consolidated financial statements.
(2) Includes 1,627 shares withheld from vested stock units to satisfy tax withholding obligations that arose on the vesting of shares of stock units.
(3) Contributing to the decrease in authority is an upfront payment of $15.0 million paid to a certain financial institution related to a structured stock repurchase agreement under which no shares were delivered during the quarter ended September 30, 2010.

ITEM 5. ***OTHER INFORMATION***

Our policy governing transactions in our securities by our directors, officers and employees permits our officers, directors and certain other persons to enter into trading plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. We have been advised that Mark B. Templeton, our President and Chief Executive Officer, David J. Henshall, our Senior Vice President and Chief Financial Officer, David R. Friedman, our General Counsel and Senior Vice President, Human Resources, Alvaro Monserrat, our Senior Vice President, Sales and Services, John Gordon Payne, our Senior Vice President and General Manager, Desktop Division, and Nanci E. Caldwell and Godfrey R. Sullivan, who serve on our Board of Directors, each entered into a new

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trading plan in the third quarter of 2010 in accordance with Rule 10b5-1 and our policy governing transactions in our securities to manage tax obligations and the exercise of soon to expire stock options. We undertake no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan.

ITEM 6. ***EXHIBITS***

(a) List of exhibits

Exhibit No.	Description
31.1	Rule 13a-14(a) / 15d-14(a) Certification
31.2	Rule 13a-14(a) / 15d-14(a) Certification
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial statements from Citrix Systems, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, as filed with the SEC on November 9, 2010, formatted in XBRL, as follows: (i) the Condensed Consolidated Balance Sheets (ii) the Condensed Consolidated Statement of Income (iii) the Condensed Consolidated Statements of Cash Flows (iv) the Notes to Condensed Consolidated Financial Statements, tagged in summary and detail

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

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on this 9th day of November 2010.

CITRIX SYSTEMS, INC.

By: /s/ DAVID J. HENSHALL
David J. Henshall
Senior Vice President and Chief Financial Officer
(Authorized Officer and Principal Financial Officer)

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