

CITRIX SYSTEMS INC
Form 10-K/A
March 07, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

Amendment No. 1

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 2003

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission File Number 0-27084

CITRIX SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

75-2275152
(I.R.S. Employer Identification No.)

851 West Cypress Creek Road
Fort Lauderdale, Florida
(Address of principal executive offices)

33309
(Zip Code)

Registrant's telephone number, including area code:

(954) 267-3000

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

None

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

Common Stock, \$.001 Par Value

(Title of class)

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

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

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Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of Common Stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter (based on the last reported sale price on The Nasdaq National Market as of such date) was \$2,982,782,390. As of March 5, 2004 there were 166,963,741 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required pursuant to Part III of this report is incorporated by reference from the Company's definitive proxy statement, relating to the annual meeting of stockholders to be held in May 2004, pursuant to Regulation 14A to be filed with the Securities and Exchange Commission.

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EXPLANATORY NOTE

Citrix Systems, Inc. (the "Company") is filing this Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2003 (the "2003 10-K"), which was originally filed on March 12, 2004, to restate its consolidated balance sheets as of December 31, 2003 and 2002, its consolidated statements of cash flows for the years ended December 31, 2003 and 2002 and the related disclosures. This Form 10-K/A also includes the restatement of selected financial data included in Item 6.

This Amendment No. 1 is being filed to address comments from the staff (the "Staff") of the Securities and Exchange Commission (the "SEC") in connection with the Staff's normal periodic review of the Company's filings. As a result of the review, the Company is restating the accompanying 2003 and 2002 consolidated balance sheets to correct an error in the classification of the portion of the Company's cash equivalents and investments that are pledged as collateral under the Company's synthetic lease arrangement, credit default contracts and interest rate swaps to classify such assets separately as restricted cash equivalents and investments. In its filings with the SEC, the Company has disclosed in narrative form the specific amounts pledged under its synthetic lease arrangement, credit default contracts and interest rate swaps from the inception of each arrangement and is now separately classifying the aggregate amounts pledged as long-term restricted cash equivalents and investments on its consolidated balance sheets. Please refer to Note 2 to the accompanying consolidated financial statements for additional information.

The Company has also made certain balance sheet, income statement and cash flow reclassifications. The Company reclassified investments in auction rate securities that were previously classified as cash equivalents in the accompanying 2003 and 2002 balance sheets to short-term investments. The 2003, 2002 and 2001 statements of cash flows were adjusted to reflect the impact of the reclassification. The Company also reclassified the amortization of core and product technology previously classified as an operating expense to a component of cost of revenues in the accompanying consolidated statements of income. The 2003, 2002 and 2001 consolidated statements of income were adjusted to reflect the impact of this change in classification. Additionally, the Company reclassified certain items in its statements of cash flows to separately present investing cash flows for available-for-sale investments and held-to-maturity investments and to separately present investing cash flows from sales of investments and maturities of investments. Please refer to Note 2 to the accompanying consolidated financial statements for additional information on the reclassifications.

This Amendment No. 1 does not result in a change in the Company's previously reported revenues, net income, earnings per share, cash flow from operations, total assets or total cash and investments shown in its consolidated financial statements. Further, except as discussed above, the Company has not modified or updated disclosures presented in the 2003 10-K in this Form 10-K/A, except as required to reflect the effects of the items discussed above. For the convenience of the reader, this Form 10-K/A sets forth the complete text of the originally filed 2003 10-K rather than just the amended portions thereof. Accordingly, this Form 10-K/A does not reflect events occurring after the filing of the 2003 10-K or modify or update those disclosures affected by subsequent events or discoveries. Information not affected by these restatements and reclassifications are unchanged and reflects the disclosures made at the time of the original filing of the 2003 10-K on March 12, 2004. Events occurring after the filing of the 2003 10-K or other disclosures necessary to reflect subsequent events have been or will be addressed in the Company's original Quarterly Reports on Form 10-Q for the quarterly periods ending March 31, 2004, June 30, 2004 and September 30, 2004 or amended Quarterly Reports on Form 10-Q/A for such quarterly periods, which are being filed concurrently with the filing of this Form 10-K/A, and any reports filed with the SEC subsequent to the date of this filing.

This Form 10-K/A should be read in conjunction with the Company's filings made with the SEC subsequent to the filing of the 2003 10-K, including any amendments to those filings. The following items have been amended as a result of the restatements and reclassifications described above:

Part II Item 6 Selected Financial Data

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Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

Part II Item 8 Financial Statements and Schedules

Part II Item 9A Controls and Procedures

Part IV Item 15 Exhibits, Financial Statement Schedules and Reports on Form 8-K

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CITRIX SYSTEMS, INC.

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ITEM 1. BUSINESS

General

Citrix Systems, Inc. (Citrix or the Company), a Delaware corporation founded on April 17, 1989, is a leading supplier of access infrastructure software and services that enable the effective and efficient enterprise-wide deployment, management and access of applications and information, including those designed for Microsoft® Windows® operating systems, for UNIX® operating systems, such as Sun Solaris , HP-UX or IBM®AIX® and for Web-based information systems, as well as Web-based desktop access. The Company's MetaFrame® products permit organizations to provide secure access to Windows based, Web-based and UNIX applications regardless of the user's location, network connection, or type of client hardware platforms. The Company markets and licenses its products primarily through multiple channels such as value-added resellers, channel distributors, system integrators and independent software vendors, managed by the Company's worldwide sales force. The Company also promotes its products through relationships with a wide variety of industry participants, including Microsoft Corporation (Microsoft).

The Business Need for Simplified Access to Information

Historically, information technology (IT) has not been created, sold or implemented with the total IT environment, from the enterprise perspective, in mind. The IT environment in most organizations has expanded incrementally over time. Each wave of computing over the past three or four decades — mainframe, minicomputer, PC, client-server, the Web, Java , Web services — has not superseded previous waves but, to some degree, has been added to the systems that were already there. This is because many of these technologies, which represent significant investments, continue to provide — best-of-breed — capabilities, economic return and strategic value.

Meanwhile, the *user* end of IT has grown ever more dynamic and unpredictable. People often change roles and locations, they typically use multiple access devices, and they unpredictably switch from one network connection to the next. Organizations need a consistent and coherent way to connect these two zones of increasing complexity — the application infrastructure side on the one hand, which is the source of information *supply*, and the user side on the other, which is the source of information *demand*. It is vital for organizations to supply users, whether internal or external, with fast, simple, secure, easy and instant access to information and applications so that they can work effectively and productively from virtually anywhere, on any type of device or network connection. Organizations face significant roadblocks to enterprise information access, which include:

Mixed Application Environments. Many businesses today use a mix of application platforms, making it difficult to deploy applications and information to all users. For example, deploying both UNIX and Windows applications to a user may require separate access devices or emulation software.

Mixed Device Environments. The growing popularity of wireless and diverse information appliances is adding to the wide array of client devices used in many enterprises. Such a mix of devices can cause accessibility and support problems.

Mobile Workers. The diversity of network connection types, protocols and transmission speeds limits the ability of organizations to deploy Windows, UNIX, Java and Web-based applications cost-effectively to mobile workers, telecommuters and branch office personnel.

Extended Enterprise. The extension of enterprise information systems to external users, such as suppliers, distributors and customers, creates application deployment issues that are outside the control of information systems managers. These include the quality, performance and security of the network connection, the client platform involved and the technical expertise of the external user.

Internet Business Initiatives. With the global adoption of the Internet and e-business, organizations need solutions for Web-enabling existing business applications without the time and cost required for re-engineering.

Security. Delivering sensitive business information to mobile workers, whether over the Internet or from within the enterprise, raises concerns about protecting data and ensuring privacy.

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Access Infrastructure for the On-Demand Enterprise

Citrix aims to address these challenges by making it easy for people to access information on demand. The Company's mission is to make every organization an on-demand enterprise where information is securely, easily and instantly accessible from virtually anywhere using any device. Citrix access infrastructure software enables organizations to reduce the costs of corporate computing, increase employee productivity, gain flexibility to technological change within their data centers, improve resilience to business interruption and gain greater control over the quality of enterprise IT services. To become an on-demand enterprise requires that an organization develop an *access strategy*, which is a well-conceived approach to connecting information supply with information demand that supports the inevitably increasing complexity on both ends of the equation.

Access infrastructure, a common interface between information supply and demand, is the embodiment of an access strategy and the foundation of an on-demand enterprise. Access infrastructure is a category of enterprise software that works with application infrastructure software used to create, operate, integrate and manage application systems and includes a wide array of capabilities including:

Device and network services. Allows easy access over virtually any trusted or non-trusted network and device.

Information aggregation and personalization. Provides central control over the user access experience and ensures that accessed information is organized, productive and relevant.

Access security and identity management. Ensures users are accurately identified and get access appropriate to their business role.

Application presentation and conferencing services. Enables shared and virtual access to any application infrastructure, from host-to-PC-to-Web-to-Web services-based.

User provisioning and usage measurement. Allows the efficient provisioning of access to new users and measurement of system utilization.

Service level management. Provides the observation capabilities to see how systems are performing to promised service levels.

In short, a single, integrated and consistent access infrastructure for the enterprise:

Gives users secure, easy and instant access to enterprise applications, information, processes and people, from virtually anywhere, at anytime, using any device, over any connection.

Enables IT staffs to manage heterogeneity by centrally consolidating applications, simplifying their deployment, management, monitoring and measurement.

Ensures that only the right people have access to the right resources to protect the security of enterprise information assets.

The Citrix® MetaFrame® Access Suite Products

Citrix access infrastructure is packaged and sold as the Citrix MetaFrame Access Suite, which enables organizations to provide a secure, single point of access to enterprise applications and information on demand. The MetaFrame Access Suite centralizes access to applications and information and enables IT staffs to deliver, manage, monitor and measure enterprise resources on demand. Citrix customers are able to run IT as a corporate computing utility, providing software as a service. This simplifies the complexity and reduces the costs of deploying and administering hundreds of heterogeneous applications and delivering them to users on demand virtually anywhere, anytime, to any device, over any connection.

In the MetaFrame Access Suite, each component product solves a particular access challenge for an organization, while all of the products work together seamlessly to enable the on-demand enterprise.

Citrix® MetaFrame® Presentation Server for Windows. The foundation of the MetaFrame Access Suite, Citrix MetaFrame Presentation Server is one of the world's most widely deployed presentation servers for centrally managing heterogeneous applications and delivering their functionality as a service to workers, wherever they may be. MetaFrame Presentation Server is

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certified to run on Microsoft® Windows® 2000 Server and Windows Server 2003, and supports virtually any custom or commercially packaged Windows or Web application. MetaFrame Presentation Server provides an exceptional foundation to build highly scalable, flexible, secure, manageable access solutions that reduce computing costs and increase the utility of any information system.

Citrix® MetaFrame® Presentation Server for UNIX®. With Citrix MetaFrame Presentation Server for UNIX, remote, mobile, and local users in heterogeneous environments can access UNIX and Java applications from any device, over any connection, and no longer need multiple desktops or software emulation packages. Citrix MetaFrame Presentation Server for UNIX supports Sun Microsystems Solaris SPARC 9, Sun Solaris Intel, Hewlett-Packard's HP-UX and IBM's AIX, and now includes new features to extend performance, usability and security.

Citrix® MetaFrame® Secure Access Manager. Citrix MetaFrame Secure Access Manager provides secure, single-point access over the Web to any enterprise resource, including client/server, legacy, and Web applications, Internet and intranet sites, streaming media, documents, network file services, and XML-based Web services. With a powerful set of easy-to-use, wizard-driven configuration tools, IT administrators can enable organized, browser-based access to the IT infrastructure configured for each user's business needs, with secure connectivity over the Web.

Citrix® MetaFrame® Password Manager. Designed to work seamlessly with all products in the MetaFrame Access Suite, Citrix MetaFrame Password Manager provides password security and single sign-on access to Windows, Web, proprietary and host-based applications running in the MetaFrame Access Suite environment. Users authenticate once with a single password, and MetaFrame Password Manager does the rest, automatically logging into password-protected information systems, enforcing password policies, monitoring password-related events, and even automating end-user tasks, including password changes. MetaFrame Password Manager makes connecting to secure applications faster and more secure, and lowers the costs of support for IT organizations.

Citrix® MetaFrame® Conferencing Manager. Citrix MetaFrame Conferencing Manager adds intuitive application conferencing to MetaFrame Presentation Server and eliminates the geographical distance between team members, increases the productivity of meetings, and allows easy collaboration. Teams can now share application sessions, work together on document editing, and conduct online training regardless of the location of individual team members or the access devices or network connections they're using.

Collectively, these products accounted for approximately 63%, 69% and 76% of the Company's net revenues in 2003, 2002 and 2001, respectively.

Citrix Subscription Advantage. To provide customers with the easiest and most convenient way to keep their Citrix software current, the Company markets software under the Citrix Subscription Advantage brand for an additional fee. Citrix Subscription Advantage is the Company's terminology for post-contract support (PCS). Citrix Subscription Advantage is an annual, renewable program that provides subscribers with automatic delivery of software upgrades, enhancements and maintenance releases when and if they become available during the term of their subscription. This product accounted for approximately 29%, 20% and 10% of the Company's net revenues in 2003, 2002 and 2001, respectively.

During February 2004, the Company acquired Expertcity.com, Inc. (Expertcity), a market leader in Web-based desktop access as well as a leader in Web-based training and customer assistance products. As a result of this acquisition, during 2004, Expertcity will be integrated into the Company as the Citrix Online Division, and the Company's portfolio of access products will include the GoToMyPC® line of software services that provide secure, browser-based access to desktop PCs from virtually anywhere over the Web. In addition, the acquisition will add the GoToAssist software service, that will enable remote technical support for helpdesks and call centers, corporate training, product demonstrations and customer collaboration over the Web.

Citrix Services

Citrix provides a portfolio of services designed to allow the Company's end-customers and entities with which it has a technology relationship to maximize the value of Citrix access infrastructure software. These services are available as a feature of the Company's business-development program and are available for additional fees to end-customers.

Citrix Consulting. The objective of Citrix Consulting is to help ensure the successful implementation of Citrix access infrastructure solutions. Tested methodologies, certified professionals and best practices developed from real-world experience allow Citrix Consulting to provide expert guidance and support to our partners and customers to maximize the effectiveness of their total application access strategy and access infrastructure environment.

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Citrix Technical Support Services. To accommodate the unique ongoing support needs of customers, Citrix Technical Support Services are specifically designed to address the variety of challenges facing application server software environments. Citrix offers five support-level options, global coverage and personalized relationship management.

Product Training & Certification. A series of courses are designed to allow customers and channel members to learn new skills and effective strategies to help plan, implement and administer Citrix products. Students may attend courses at one of over 300 Citrix Authorized Learning Centers (CALCs) worldwide.

Services revenue accounted for approximately 8% of the Company's net revenues in 2003 and 2002 and 7% in 2001.

Citrix Technology

Citrix products are based on a full range of industry-standard technologies. In addition, some Citrix products also include the Company's proprietary technologies known as the Independent Computing Architecture (ICA) protocol, which allows an application's graphical user interface to be displayed on virtually any client device while the application logic is executed on a central server. Because the ICA® protocol moves client-based application processing to the server, this approach enables centralized management of applications, users, servers, licenses and other system components for greater efficiency and lower cost.

The Company's ICA® technology also minimizes the amount of data traveling across a user's network as only encrypted screen refreshes, keystrokes and mouse clicks are transported to and from the client device. This increases remote access security, improves application performance and allows even wireless access to the latest, most powerful applications and information.

Citrix products are also based on the industry-standard Extensible Markup Language (XML). Leveraging XML assures open systems interaction for customers regardless of data source or platform. And by supporting XML, which is the standard for future Web services-based applications, Citrix helps customers get from the client/server world of today to the Web services environments of tomorrow.

Citrix Customers

Citrix's primary target markets for its current products and services are large and medium-sized organizations in the commercial, government and education sectors. Currently, Citrix has more than 120,000 customers worldwide, including 100% of the *Fortune* 100, 99% of the *Fortune* 500 and 95% of the *Financial Times* FT Europe 100. During 2003, Citrix's enterprise customers included the U.S. Department of Health and Human Services, DaimlerChrysler AG, Target Corporation, Beverly Enterprises, Inc., IKEA International A/S and Cargill, among others.

The Company's software licenses are generally perpetual and are offered in both shrink wrapped and electronic-based forms. The Company distributes its software using various formats including traditional boxed packages for small projects and customers, and electronically downloaded formats for its large projects and customers.

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For medium to large-sized projects, which typically consist of large multi-server environments, the Company offers electronic volume-based licensing programs. These programs provide for enterprise customer license arrangements that allow usage of the Company's products both on a department or enterprise-wide basis. These licenses include electronically delivered software activation keys that enable the feature configuration ordered by the customer. Depending on the license type and customer preference, the software media is delivered by a channel distributor or directly by the Company. The Company has invested, and continues to invest, in large-account relationship professionals, license fulfillment channels and entities with which we have service-oriented system integration relationships to assist larger customers with broader usage of the Company's software infrastructure.

Technology Relationships

The Company has entered into a number of technology relationships to develop customer markets for its products, broaden the use of the ICA protocol as an emerging industry standard technology for distributed Windows and non Windows applications and to accelerate the development of its existing and future product lines.

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Microsoft. Since its inception, the Company has had a number of license agreements with Microsoft, including licenses relating to Microsoft OS/2, Windows 3.x, Windows for Workgroups, Windows NT®, Windows CE and Internet Explorer. These agreements have provided the Company with access to certain Microsoft source and object code, technical support and other materials.

In May 1997, the Company entered into a five-year joint license, development and marketing agreement with Microsoft, (as amended, the Microsoft Development Agreement), pursuant to which the Company licensed its multi-user Windows NT extensions to Microsoft for inclusion in future versions of Windows NT server software. Pursuant to the Microsoft Development Agreement, the Company's multi-user Windows NT extensions technology was incorporated into Microsoft's NT Terminal Server, which was released in July 1998, and Windows 2000 Server, which was released in February 2000.

In May 2002, the Company signed an agreement with Microsoft to provide the Company with access to Microsoft Windows Server source code for current and future Microsoft Server operating systems, including access to Windows Server 2003 and terminal services source code, during the three year term of the agreement. This agreement does not provide for payments to or from Microsoft.

There can be no assurances that the Company's agreements with Microsoft will be extended or renewed by Microsoft upon their respective expirations or that, if renewed or extended, such agreements will be on terms favorable to the Company. See Management's Discussion and Analysis of Financial Condition and Results of Operations Certain Factors Which May Affect Future Results.

Additional Relationships. As of December 31, 2003, the Company had entered into approximately 40 ICA license agreements. Currently, numerous devices incorporate Citrix ICA, ranging from Linux terminals to information appliances, such as wireless phones and handheld devices. ICA licensees include Wyse Technologies, Hewlett-Packard, Neoware, Fujitsu, and SAP AG, among others.

In addition, the Citrix accessPARTNER network includes Citrix Alliance Partners , which are a coalition of industry-leading companies from across the IT spectrum who work with the Company to design and market complementary solutions for the Company and the customers of Citrix Alliance Partners. The Company's existing alliance and channel programs, including the Citrix Business Alliance, are now included as part of the Citrix accessPARTNER network. For further information on the Citrix accessPARTNER network see Sales, Marketing and Support. By the end of 2003, the number of Citrix Alliance Partners had grown to approximately 1,400 members, including hardware, software, global and regional consulting alliances. Citrix Alliance Partners include Microsoft, Dell, IBM, EMC², Hewlett-Packard, Siebel Systems, PeopleSoft, SAP AG, Mercury Interactive, Fujitsu, Verizon Wireless, Sprint PCS, Sun Microsystems and Advanced Micro Devices.

Research and Development

The Company focuses its research and development efforts on developing new products and core technologies for its markets and further enhancing the functionality, reliability, performance and flexibility of existing products. The Company solicits extensive input concerning product development from users, both directly from end-customers and indirectly through its channel distributors.

The Company believes that its software development team and core technologies represent a significant competitive advantage for the Company. Included in the software development team is a group focused on research activities that include prototyping ways to integrate emerging technologies and standards into the Company's product offerings, such as emerging Web services technologies and Microsoft's newest Windows Server technologies. Other groups within the software development team have expertise in XML-based software development, integration of

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acquired technology, multi-tier Web-based application development and deployment and secure sockets layers-based (SSL) secure access. The software development team also includes a number of key employees who were instrumental in the release of Microsoft's Windows NT 4.0 Terminal Server Edition, have expertise in current Microsoft and UNIX operating system environments (Solaris, AIX, HP-UX, and Linux), and were key members from the engineering team that developed the original version of OS/2 at IBM. During 2003, 2002 and 2001, the Company incurred research and development expenses of approximately \$64.4 million, \$68.9 million and, \$67.7 million, respectively.

Sales, Marketing and Support

The Company markets and licenses its products primarily through multiple channels worldwide, including value added resellers, channel distributors, system integrators (SI s) and independent software vendors (ISV s), managed by the Company's worldwide sales force. The Company provides training and certification to integrators, value-added resellers and consultants for a full-range of MetaFrame-based application deployment and management solutions and services through its accessPARTNER network.

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As of December 31, 2003, the Company had relationships with approximately 100 distributors and approximately 5,100 Citrix Solution Advisors worldwide. A number of entities with which the Company has channel relationships provide additional end-customer sales channels for the Company's products under either a Citrix brand or embedded in the licensee's own software product. For information regarding entities with which the Company has technology relationships, including Citrix Alliance Partners, see Technology Relationships.

The Company regularly takes actions to improve the effectiveness of and strengthen its channel relationships, including eliminating non-performing partners, adding new partners with expertise in selling into new markets, and forming additional relationships with global and regional SIs and ISVs. In 2003, the Company particularly focused on streamlining and simplifying sales processes, improving channel incentive programs to reward solution-selling, and training. The Company combined its existing channel programs, including the Citrix Solutions Network, into the Citrix accessPARTNER network, a single, global network that spans the solution advisors, SIs, value-added distributors, resellers, alliance partners, and certified education professionals who advise on, sell, implement and provide training for the Citrix MetaFrame Access Suite and related products and services. At the core of this community are Solution Advisors—value-added resellers who deliver strategic and successful access infrastructure solutions for customers. SIs and ISVs are becoming a more central part of Citrix's strategy in the business and government markets. The SI program includes members such as IBM, HP, Computer Sciences Corporation, Electronic Data Systems Corporation, Schlumberger, Siemens and Northrop Grumman. The ISV program has a strong representation from targeted industry verticals such as healthcare, financial services and telecommunications. Members in the ISV program include Amdocs, Cerner, Dell, McKesson, Siemens Medical Health Solutions, Reynolds & Reynolds, ESRI and Ericsson.

The Company's sales and marketing organization actively supports its distributors and resellers. The Company's sales organization consists of field-based systems sales engineers and corporate sales professionals. Additional sales personnel, based in North America, Europe, Africa, Asia, Australia and South America, support these field personnel. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations and Note 13 to the Company's Notes to Consolidated Financial Statements for information regarding the Company's geographic segments. These additional sales personnel recruit prospective customers, provide technical advice with respect to the Company's products and work closely with key distributors and resellers of the Company's products. During 2003 and 2002, the Company grew its end-customer sales force of sales professionals that work closely with medium and large enterprise customers to achieve the appropriate combination of relationships for licensing, integration and consulting to meet customers' needs. These and other account penetration efforts are part of the Company's strategy to increase the usage of Citrix software within the customer's IT organization.

The Company's marketing department provides training, sales event support, sales collateral, advertising, direct mail and public relations coverage to its indirect channels to aid in market development and in attracting new customers. In 2003, the Company launched its first-ever, multi-million-dollar, worldwide advertising campaign. Beginning September 2003, and extending throughout 2004, this multi-media campaign combines CIO-targeted and customer-focused print, Web, billboard and radio advertisements to raise Citrix's brand awareness using the CIOs of household-name customers to describe the benefits of becoming an on-demand enterprise with Citrix access infrastructure.

The Company provides most of its distributors with stock balancing and price protection rights. These transactions are estimated and provided for at the time of sale as a reduction of revenue. Stock balancing rights permit distributors to return products to the Company, subject to ordering an equal dollar amount of other Citrix products. The Company is not obligated to accept product returns from its distributors under any other conditions, unless the product item is defective in manufacture. Product items returned to the Company under the stock-balancing program must be in new, unused and unopened condition. Price protection rights require that the Company grant retroactive price adjustments for inventories of Citrix products held by distributors or resellers if the Company lowers its prices for such products. In the event that the Company decides to reduce its prices, it will establish a reserve to cover exposure to distributor inventory. The Company has not reduced and has no current plans to reduce the prices of its products for inventory currently held by distributors or resellers. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Note 3 to the Company's Notes to Consolidated Financial Statements for information regarding the Company's revenue recognition policy.

The majority of the Company's service activities are related to post-sale technical support, pre- and post-sale consulting and product training services. Post-sale technical support is offered through Citrix-operated support centers located in the United States, Ireland, Tokyo and Australia.

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In most cases, the Company provides technical advice to channel distributors and entities with which the Company has a technology relationship, who act as the first line of technical assistance for end-customers. In some cases, end-customers can also choose from a Citrix-delivered fee-based support program ranging from one-time incident charges to an enterprise-level support agreement covering multiple sites and servers. In addition, the Company also provides free technical advice through on-line

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support systems, including its Web-based Knowledge Center. For pre- and post-sale consulting, Citrix Consulting, a consulting services organization, provides both exploratory and fee-based consulting services. These services include on-site systems design and implementation services targeted primarily at enterprise-level clients with complex IT environments. Citrix Consulting is also responsible for the development of best practice knowledge that is disseminated to businesses with which Citrix has a business relationship and end-customers through training and written documentation. Leveraging these best practices enables the Company's integration resellers to provide more complex systems, reach new buyers within existing customer organizations and provide more sophisticated system proposals to prospective customers. Training services for business, end-customers and partners are provided through the Company's CALC program and eLearning. CALCs are staffed with instructors that have been certified by Citrix and teach their students using Citrix-developed courseware. Over 300 of the world's leading IT training organizations are CALCs. eLearning is available through both CALCs and from Citrix's website.

Operations

The Company controls all purchasing, inventory, scheduling, order processing and accounting functions related to its operations. Production, warehousing and shipping are performed internally in the United States and by independent contractors on a purchase order basis in Ireland, depending upon the customer's geographic market. Master software CD-ROMs, development of user manuals, packaging designs, initial product quality control and testing are performed at the Company's facilities. In some cases, independent contractors duplicate CD-ROMs, print documentation, and package and assemble product to the Company's specifications. To date, the Company has not experienced any material difficulties or delays in the manufacture and assembly of its products. Internal manufacturing capabilities and independent contractors provide a redundant source of manufacture and assembly.

The Company generally ships products upon receipt of an order. As a result, the Company does not have significant backlog at any given time, and does not consider backlog to be a significant indicator of future performance.

Competition

As the markets for the Company's products continue to develop, additional companies, including Microsoft and other companies with significant market presence in the computer hardware, software and networking industries could enter the markets in which the Company competes and further intensify competition.

In addition, alternative products for secure, remote access in the Internet software and hardware markets directly and indirectly compete with the Company's current products and anticipated future product offerings. Existing or new products that extend Internet software and hardware to provide Web-based information and application access or interactive computing can materially impact the Company's ability to sell its products in this market. The Company's competitors in this market include Microsoft, Oracle, Sun Microsystems, Cisco, and other makers of secure remote access solutions.

See Technology Relationships and Management's Discussion and Analysis of Financial Conditions and Results of Operations - Certain Factors Which May Affect Future Results. The announcement of the release, and the actual release, of products competitive to the Company's existing and future product lines, could cause existing and potential customers of the Company to postpone or cancel plans to license certain of its existing and future product offerings, which would adversely impact the Company's business, results of operations and financial condition.

Proprietary Technology

The Company's success is dependent upon certain proprietary technologies and core intellectual property. The Company has been awarded a number of domestic and foreign patents and has a number of pending patent applications in the United States and foreign countries. The Company's technology is also protected under copyright laws. Additionally, the Company relies on trade secret protection and confidentiality and proprietary information agreements to protect its proprietary technology. The Company has trademarks or registered trademarks in the United States and other countries, including Citrix®, ICA®, MetaFrame®, MetaFrameXP®, GoToMyPC®, GoToAssist® and the Citrix® logo.

While the Company's competitive position could be affected by its ability to protect its proprietary information, the Company believes that because of the rapid pace of technological change in the industry, factors such as the technical expertise, knowledge and innovative skill of the Company's management and technical personnel, its technology relationships, name recognition, the timeliness and quality of support services provided by the Company and its ability to rapidly develop, enhance and market software products could be more significant in maintaining the Company's competitive position. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Certain Factors Which May Affect Future Results.

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Available Information

The Company's Internet address is <http://www.citrix.com>. The Company makes available, free of charge, on or through the Company's Internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements on Form DEF 14A and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

Employees

As of December 31, 2003, the Company had 1,885 employees. The Company believes its relations with employees are good. The Company's relations with employees are governed by labor regulations in certain countries.

ITEM 2. *PROPERTIES*

The Company's corporate offices are located in Fort Lauderdale, Florida. The Company's corporate offices include leased and subleased office space totaling approximately 454,000 square feet. In addition, the Company leases approximately 67,000 square feet of office space in other locations in the United States and Canada.

The Company leases and subleases a total of approximately 220,000 square feet of office space in various other facilities in Europe, Latin America and the Asia Pacific region. In addition, the Company owns land and buildings in the United Kingdom with approximately 48,000 square feet of office space.

ITEM 3. *LEGAL PROCEEDINGS*

The Company is a defendant in various litigation matters generally arising out of the normal course of business. Although it is difficult to predict the ultimate outcome of these cases, management believes, based on discussions with counsel, that any ultimate liability would not materially affect the Company's business, financial position, result of operations or cash flows.

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

None.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS****Price Range of Common Stock and Dividend Policy**

The Company's Common Stock is currently traded on The Nasdaq National Market under the symbol CTXS. The following table sets forth the high and low closing prices for the Company's Common Stock as reported on The Nasdaq National Market for the periods indicated, as adjusted to the nearest cent. Such information reflects inter-dealer prices, without retail markup, markdown or commission and may not represent actual transactions.

	<u>High</u>	<u>Low</u>
Year Ended December 31, 2004:		
First quarter (through March 5, 2004)	\$ 22.72	\$ 19.26
Year Ended December 31, 2003:		
Fourth quarter	\$ 26.94	\$ 21.16
Third quarter	\$ 24.50	\$ 16.93
Second quarter	\$ 23.26	\$ 13.30
First quarter	\$ 14.76	\$ 10.98
Year Ended December 31, 2002:		
Fourth quarter	\$ 13.33	\$ 5.87
Third quarter	\$ 6.52	\$ 5.00
Second quarter	\$ 17.39	\$ 5.51
First quarter	\$ 23.98	\$ 13.50

On March 5, 2004 the last reported sale price of the Common Stock on The Nasdaq National Market was \$20.03 per share. As of March 5, 2004, there were approximately 1,293 holders of record of the Common Stock.

The Company currently intends to retain any earnings for use in its business, for investment in acquisitions and to repurchase shares of its Common Stock. The Company does not currently anticipate paying any cash dividends on its capital stock in the foreseeable future.

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The following selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(In thousands, except per share data)				
Consolidated Statements of Income Data:					
Net revenues	\$ 588,625	\$ 527,448	\$ 591,629	\$ 470,446	\$ 403,285
Cost of revenues(a)	31,072	29,841	41,451	41,549	25,010
Gross margin(a)	557,553	497,607	550,178	428,897	378,275
Operating expenses:					
Research and development	64,443	68,923	67,699	50,622	37,363
Sales, marketing and support	252,749	235,393	224,108	180,384	121,302
General and administrative	85,672	88,946	85,212	58,685	37,757
Amortization of other intangible assets(a)(b)	300	485	37,228	17,900	8,049
In-process research and development			2,580		2,300
Write-down of technology(c)					