

CITRIX SYSTEMS INC
Form 10-Q/A
March 07, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
AMENDMENT NO. 1

(Mark One)

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

For the quarterly period ended March 31, 2004

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.

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(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

75-2275152
(IRS Employer Identification No.)

incorporation or organization)

851 West Cypress Creek Road

Fort Lauderdale, Florida
(Address of principal executive offices)

33309
(Zip Code)

Registrant's Telephone Number, Including Area Code:

(954) 267-3000

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

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

As of May 3, 2004 there were 170,208,451 shares of the registrant's Common Stock, \$.001 par value per share, outstanding.

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EXPLANATORY NOTE

Citrix Systems, Inc. (the "Company") is filing this Amendment No. 1 to its Form 10-Q for the quarter ended March 31, 2004 (the "2004 First Quarter 10-Q"), which was originally filed on May 7, 2004, to restate its condensed consolidated balance sheets as of March 31, 2004 and December 31, 2003, its condensed consolidated statements of cash flows for the three months ended March 31, 2004 and 2003 and the related disclosures.

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 March 31, 2004 and December 31, 2003 condensed 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 in its condensed consolidated balance sheets. Please refer to Note 1 to the accompanying condensed 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 March 31, 2004 and December 31, 2003 condensed consolidated balance sheets to short-term investments. The condensed consolidated statements of cash flows for the three months ended March 31, 2004 and 2003 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 condensed consolidated statements of income. The condensed consolidated statements of income for the three months ended March 31, 2004 and 2003 were adjusted to reflect the impact of this change in classification. Additionally, the Company reclassified certain items in its condensed consolidated statement 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 1 to the accompanying condensed 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 condensed consolidated financial statements. Further, except as discussed above, the Company has not modified or updated disclosures presented in the 2004 First Quarter 10-Q in this Form 10-Q/A, except as required to reflect the effects of the items discussed above. For the convenience of the reader, this Form 10-Q/A sets forth the complete text of the originally filed 2004 First Quarter 10-Q rather than just the amended portions thereof. Accordingly, this Form 10-Q/A does not reflect events occurring after the filing of the 2004 First Quarter 10-Q or modify or update those disclosures affected by subsequent events. Information not affected by these restatements and reclassifications are unchanged and reflects the disclosures made at the time of the original filing of the 2004 First Quarter 10-Q on May 7, 2004. Events occurring after the filing of the 2004 First Quarter 10-Q 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 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-Q/A, and any reports filed with the SEC subsequent to the date of this filing.

This Form 10-Q/A should be read in conjunction with the Company's filings made with the SEC subsequent to the filing of the 2004 First Quarter 10-Q, including any amendments to those filings. The following items have been amended as a result of the restatements and reclassifications described above:

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Part I - Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I Item 4 Controls and Procedures

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Form 10-Q/A

For the Quarterly Period Ended March 31, 2004

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Table of Contents**PART I: FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Citrix Systems, Inc.****Condensed Consolidated Balance Sheets****(Unaudited)**

	March 31, 2004	December 31, 2003
	(As restated)	(As restated)
	(In thousands, except par value)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 131,561	\$ 182,969
Short-term investments	74,668	385,431
Accounts receivable, net of allowances of \$7,840 and \$6,365 at March 31, 2004 and December 31, 2003, respectively	67,646	87,464
Prepaid expenses and other current assets	39,587	58,167
Current portion of deferred tax assets	51,825	51,540
	<u>365,287</u>	<u>765,571</u>
Total current assets		
Restricted cash equivalents and investments	149,387	146,460
Long-term investments	180,532	183,411
Property and equipment, net	67,026	65,837
Goodwill, net	313,584	152,364
Other intangible assets, net	68,403	21,300
Long-term portion of deferred tax assets		3,168
Other assets	7,330	6,828
	<u>\$ 1,151,549</u>	<u>\$ 1,344,939</u>
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 106,742	\$ 114,456
Current portion of deferred revenues	172,707	152,938
Convertible subordinated debentures		351,423
	<u>279,449</u>	<u>618,817</u>
Total current liabilities		
Long-term portion of deferred revenues	10,973	12,137

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Other liabilities	15,300	7,187
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; 208,928 and 202,622 issued at March 31, 2004 and December 31, 2003, respectively	209	203
Additional paid-in capital	847,150	700,111
Retained earnings	656,065	646,740
Accumulated other comprehensive income	5,347	7,810
	<u>1,508,771</u>	<u>1,354,864</u>
Less common stock in treasury, at cost (38,860 and 38,150 shares at March 31, 2004 and December 31, 2003, respectively)	<u>(662,944)</u>	<u>(648,066)</u>
Total stockholders' equity	<u>845,827</u>	<u>706,798</u>
	<u>\$ 1,151,549</u>	<u>\$ 1,344,939</u>

See accompanying notes

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Citrix Systems, Inc.

Condensed Consolidated Statements of Income**(Unaudited)**

	Three Months Ended	
	March 31,	
	2004	2003
	(In thousands, except	
	per share information)	
Revenues:		
Software licenses	\$ 87,426	\$ 96,874
Software license updates	58,897	35,240
Services	14,987	11,377
Total net revenues	161,310	143,491
Cost of revenues:		
Cost of software license revenues	1,413	3,293
Cost of services revenues	2,823	1,438
Amortization of core and product technology	3,034	2,874
Total cost of revenues	7,270	7,605
Gross margin	154,040	135,886
Operating expenses:		
Research and development	19,038	15,125
Sales, marketing and support	74,128	61,711
General and administrative	24,751	21,022
Amortization of other intangible assets	726	100
In-process research and development	18,700	
Total operating expenses	137,343	97,958
Income from operations	16,697	37,928
Interest income	5,685	5,663
Interest expense	(4,344)	(4,549)
Write-off of deferred debt issuance costs	(7,219)	
Other income, net	985	346
Income before income taxes	11,804	39,388
Income taxes	2,479	9,059
Net income	\$ 9,325	\$ 30,329

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Earnings share:		
Basic	\$ 0.06	\$ 0.18
	<u> </u>	<u> </u>
Diluted	\$ 0.05	\$ 0.18
	<u> </u>	<u> </u>
Weighted average shares outstanding:		
Basic	166,457	167,300
	<u> </u>	<u> </u>
Diluted	172,584	170,402
	<u> </u>	<u> </u>

See accompanying notes

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Citrix Systems, Inc.

Condensed Consolidated Statements of Cash Flows**(Unaudited)**

	Three Months Ended	
	March 31,	
	2004	2003
	(As restated)	(As restated)
	(In thousands)	
OPERATING ACTIVITIES		
Net income	\$ 9,325	\$ 30,329
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	3,760	2,974
Depreciation and amortization of property and equipment	4,895	7,178
Write-off of deferred debt issuance costs	7,219	
Realized (gain) loss on investments	(548)	47
In-process research and development	18,700	
Provision for doubtful accounts	798	625
Provision for (recovery of) product returns	1,828	(451)
Provision for inventory reserves	402	199
Tax benefit related to the exercise of non-statutory stock options and disqualifying dispositions of incentive stock options	3,953	2,745
Accretion of original issue discount and amortization of financing cost	4,318	4,545
	45,325	17,862
Changes in operating assets and liabilities, net of the effects of acquisition:		
Accounts receivable	20,047	564
Prepaid expenses and other current assets	7,879	4,508
Other assets	(454)	1,174
Deferred tax assets	19	358
Accounts payable and accrued expenses	(18,966)	(2,748)
Deferred revenues	13,605	6,707
Other liabilities	1,186	655
	23,316	11,218
Net cash provided by operating activities	77,966	59,409
INVESTING ACTIVITIES		
Purchases of investments	(21,894)	(53,080)
Proceeds from sales of available-for-sale investments	128,422	7,667
Proceeds from maturities of available-for-sale investments	10,514	43,333
Proceeds from maturities of held-to-maturities investments	195,350	
Purchases of property and equipment	(4,150)	(1,402)
Cash paid for licensing agreement	(1,442)	(372)
Cash paid for acquisitions, net of cash acquired	(90,750)	

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Net cash provided by (used in) investing activities	216,050	(3,854)
FINANCING ACTIVITIES		
Proceeds from issuance of common stock	10,235	4,409
Cash paid under stock repurchase programs		(60,170)
Cash paid to redeem convertible subordinated debentures	(355,659)	
Proceeds from sale of put warrants		655
Other		(5)
	<u>(345,424)</u>	<u>(55,111)</u>
Net cash used in financing activities	(345,424)	(55,111)
Change in cash and cash equivalents	(51,408)	444
Cash and cash equivalents at beginning of period	182,969	82,350
	<u>\$ 131,561</u>	<u>\$ 82,794</u>
Cash and cash equivalents at end of period	\$ 131,561	\$ 82,794
Supplemental non-cash investing activity:		
Increase in restricted cash equivalents and investments	\$ 2,927	\$ 98

See accompanying notes

Table of Contents**Citrix Systems, Inc.****Notes to Condensed Consolidated Financial Statements (As restated)****(Unaudited)****March 31, 2004****1. BASIS OF PRESENTATION**

The Company recently reviewed its financial statement presentation and disclosure in response to comments received from the staff of the Securities and Exchange Commission (the SEC) in a normal periodic review of the Company's filings. As a result, the Company is restating its accompanying March 31, 2004 and December 31, 2003 condensed consolidated balance sheets to correct an error in the classification of the portion of the Company's cash equivalents and investments 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 in its condensed consolidated balance sheets. The condensed consolidated statements of cash flows for the three months ended March 31, 2004 and 2003 were restated to reflect the impact of the change.

In addition, certain reclassifications of items in the prior periods' financial statements have been made to conform to the current period's presentation. The Company reclassified investments in auction rate securities previously classified as cash and cash equivalents to short-term investments. Also, in accordance with Statement of Financial Accounting Standards (SFAS) No. 95, *Statement of Cash Flows*, the Company reclassified certain items in its condensed consolidated 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. The accompanying condensed consolidated balance sheets and statements of cash flows for all periods presented were adjusted to reflect the reclassification of these items.

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 condensed consolidated statements of income.

The changes to the Company's presentation described above do not change the Company's total cash and investments and have no impact on operating cash flows, total assets, net revenues or net income. All such changes have been consistently applied to all periods presented and a comparison of the amounts previously reported to the adjusted amounts presented in this Quarterly Report on Form 10-Q/A (in thousands):

	March 31, 2004		December 31, 2003	
	As Reported	As Adjusted	As Reported	As Adjusted
Condensed Consolidated Balance Sheet Information				
Cash and cash equivalents	\$ 201,102	\$ 131,561	\$ 359,343	\$ 182,969
Short-term investments	50,091	74,668	252,971	385,431
Total current assets	410,251	365,287	809,485	765,571

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Restricted cash equivalents and investments		149,387		146,460
Long-term investments	284,955	180,532	285,957	183,411

For the Three Months Ended March 31,

2004		2003	
As Reported	As Adjusted	As Reported	As Adjusted

Condensed Consolidated Statements of Cash Flow Information

Net income	\$ 9,325	\$ 9,325	\$ 30,329	\$ 30,329
Net cash provided by operating activities	77,966	77,966	59,409	59,409
Cash flows from investing activities:				
Purchases of investments	(9,085)	(21,894)	(40,255)	(53,080)
Proceeds from sales and maturities of investments	214,644		46,850	
Proceeds from sales of available-for-sale investments		128,422		7,667
Proceeds from maturities of available-for-sale investments		10,514		43,333
Proceeds from maturity of held-to-maturity investments		195,350		
Net cash provided by (used in) investing activities	109,217	216,050	4,821	(3,854)
Net cash used in financing activities	(345,424)	(345,424)	(55,111)	(55,111)
Change in cash and cash equivalents	(158,241)	(51,408)	9,119	444
Cash and cash equivalents at beginning of year	359,343	182,969	142,700	82,350
Cash and cash equivalents at end of year	201,102	131,561	151,819	82,794

Table of Contents**Citrix Systems, Inc.****Notes to Condensed Consolidated Financial Statements (As restated)****(Unaudited)****March 31, 2004**

	For the Three Months Ended March 31,			
	2004		2003	
	As Reported	As Adjusted	As Reported	As Adjusted
Condensed Consolidated Income Statement Information				
Net revenues	\$ 161,310	\$ 161,310	\$ 143,491	\$ 143,491
Total cost of revenues	4,236	7,270	4,731	7,605
Gross margin	157,074	154,040	138,760	135,886
Total operating expenses	140,377	137,343	100,832	97,958
Net income	9,325	9,325	30,329	30,329

The accompanying unaudited condensed consolidated financial statements 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 unaudited condensed consolidated financial statements. 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. The information included in these unaudited condensed consolidated financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this report and the consolidated financial statements and accompanying notes included in the Citrix Systems, Inc. (the Company) Form 10-K for the year ended December 31, 2003, as amended.

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 position and results of operations taken as a whole, the actual amount of such estimates, when known, will vary from these estimates.

Restricted Cash Equivalents and Investments

Restricted cash equivalents and investments at March 31, 2004 and December 31, 2003 include approximately \$62.8 million in investment securities and cash equivalents that were pledged as collateral for specified obligations under the Company's synthetic lease arrangement. In addition, at March 31, 2004 and December 31, 2003 approximately \$86.6 million and \$83.6 million, respectively, in investment securities were pledged as collateral for certain of the Company's credit default contracts and interest rate swaps. The Company maintains the ability to manage the composition of the restricted investments within certain limits and to withdraw and use excess investment earnings from the restricted collateral for operating purposes. For further information, see Notes 8 and 13.

Revenue Recognition

The Company markets and licenses software products primarily through value-added resellers, channel distributors, system integrators and independent software vendors, managed by the Company's worldwide sales force. The Company also separately sells software license updates and services, which include product training, technical support and consulting services, as well as Web-based desktop access services. The Company's software licenses are generally perpetual, and are delivered by means of traditional packaged products and electronically.

The Company's packaged products are typically purchased by medium and small-sized businesses with a minimal number of locations. In these cases, the software license is delivered with the packaged product. Electronic license arrangements are used with more complex multiserver environments typically found in larger business enterprises that deploy the Company's products on a department or enterprise-wide basis, which could require differences in product features and functionality at various customer locations. Once the Company receives a purchase order, the enterprise customer licenses are electronically delivered to the customer with software activation keys that enable the feature configuration ordered by the end-user. Software may be delivered indirectly by a channel distributor or directly by the Company pursuant to a purchase order.

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Citrix Systems, Inc.

Notes to Condensed Consolidated Financial Statements (As restated)

(Unaudited)

March 31, 2004

Revenue is recognized when it is earned. The Company's revenue recognition policies are in compliance with SOP 97-2 (as amended by SOP 98-4 and SOP 98-9) and related interpretations, *Software Revenue Recognition*. In addition, the Company's Online Division recognizes revenue in accordance with Emerging Issues Task Force (EITF) No. 00-3, *Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware*. The Company recognizes revenue when all of the following criteria are met: persuasive evidence of the arrangement exists; delivery has occurred and the Company has no remaining obligations; the fee is fixed or determinable; and collectibility is probable. The Company defines these four criteria as follows:

Persuasive evidence of the arrangement exists. The Company recognizes revenue on packaged product upon shipment to distributors and resellers. For packaged product sales, it is the Company's customary practice to require a purchase order from distributors who have previously negotiated a master packaged product distribution or resale agreement. For enterprise customer license arrangements, the Company typically requires a purchase order from the distributor or reseller and an executed standard software license agreement from the end-user. The Company requires a purchase order for technical support, product training and consulting services.

Delivery has occurred and the Company has no remaining obligations. The Company's standard delivery method is free-on-board shipping point. Consequently, it considers delivery of packaged product to have occurred when the products are shipped to distributors pursuant to an agreement and purchase order. The Company considers delivery of licenses under electronic licensing agreements to have occurred when the related products are shipped and the end-user has been electronically provided with the licenses that include the activation keys that allow the end-user to take immediate possession of the software. For product training and consulting services, the Company fulfills its obligation when the services are performed. For software license updates, technical support and Web-based desktop access services, the Company assumes that the obligations are satisfied ratably over the respective terms of the agreements, which are typically 12 to 24 months.

The fee is fixed or determinable. In the normal course of business, the Company does not provide customers the right to a refund of any portion of their license fees or extended payment terms. The Company sells software license updates, and services, which includes technical support, product training and consulting services, separately and it determines vendor specific objective evidence (VSOE) of fair value by the price charged for each product or applicable renewal rates.

Collectibility is probable. The Company determines collectibility on a customer-by-customer basis and generally does not require collateral. The Company typically sells to distributors or resellers for whom there are histories of successful collection. New customers are subject to a credit review process that evaluates the customers' financial position and ultimately their ability to pay. Customers are subject to an ongoing credit review process. If the Company determines from the outset of an arrangement that collectibility is not probable, revenue recognition is deferred until customer payment is received and the other parameters of revenue recognition described above have been achieved. Management's judgment is required in assessing the probability of collection, which is generally based on evaluation of customer specific information, historical experience and economic market conditions. If market conditions decline, or if the financial condition of distributors or customers deteriorates, the Company may be unable to determine that collectibility is probable, and it could be required to defer the recognition of revenue until the Company receives customer payment.

Net revenues include the following categories: Software Licenses, Software License Updates and Services. Software Licenses primarily represents fees related to the licensing of the MetaFrame products, additional user licenses and management products (such as load balancing

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and resource management products). These revenues are reflected net of sales allowances and provisions for stock balancing return rights. Software License Updates consists of fees related to the Subscription Advantage program (the Company's terminology for PCS) that are recognized ratably over the term of the contract, which is typically 12-24 months. 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 subscription. Services consist primarily of technical support services and Web-based desktop access services revenue recognized ratably over the contract term, revenue from product training and certification, and consulting services revenue related to implementation of the Company's software products, which is recognized as the services are provided.

The Company sells most of its software products bundled with an initial subscription for software license updates that provides the end user with free enhancements and upgrades to the licensed product on a when and if available basis. Customers may also elect to purchase technical support, product training or consulting services. The Company allocates

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Citrix Systems, Inc.

Notes to Condensed Consolidated Financial Statements (As restated)

(Unaudited)

March 31, 2004

revenue to software license updates and any other undelivered elements of the arrangement based on 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 revenue, net of any discounts inherent in the arrangement, is allocated to the delivered software product using the residual method and recognized at the outset of the arrangement as the software licenses are delivered. If management cannot objectively determine the fair value of each undelivered element based on VSOE, 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 does not permit product returns, but it does provide most of its distributors and value added resellers with stock balancing and price protection rights. Stock balancing rights permit distributors to return products to the Company by the forty-fifth day of the fiscal quarter, subject to ordering an equal dollar amount of the Company's other products prior to the last day of the same fiscal quarter. Price protection rights require that the Company grant retroactive price adjustments for inventories of products held by distributors or resellers if it lowers prices for such products. The Company establishes provisions for estimated returns for stock balancing and price protection rights, as well as other sales allowances, concurrently with the recognition of revenue. The provisions are established based upon consideration of a variety of factors, including, among other things, recent and historical return rates for both specific products and distributors, estimated distributor inventory levels by product, the impact of any new product releases and projected economic conditions. Actual product returns for stock balancing and price protection provisions incurred are, however, dependent upon future events, including the amount of stock balancing activity by distributors and the level of distributor inventories at the time of any price adjustments. The Company continually monitors the factors that influence the pricing of its products and distributor inventory levels and makes adjustments to these provisions when it believes actual returns and other allowances could differ from established reserves. The Company's ability to recognize revenue upon shipment to distributors is predicated on its ability to reliably estimate future stock balancing returns. If actual experience or changes in market condition impairs the Company's ability to estimate returns, it would be required to defer the recognition of revenue until the delivery of the product to the end-user. Allowances for estimated product returns amounted to approximately \$3.1 million at March 31, 2004 and \$3.0 million at December 31, 2003. The Company has not reduced and has no current plans to reduce its prices for inventory currently held by distributors or resellers. Accordingly, there were no reserves required for price protection at March 31, 2004 or December 31, 2003. The Company records estimated reductions to revenue for customer programs and incentive offerings including volume-based incentives. If market conditions were to decline, the Company could take actions to increase its customer incentive offerings, which could result in an incremental reduction to revenue at the time the incentive is offered.

Accounting for Stock-Based Compensation

The Company's stock option program is a broad based, long-term retention program that is intended to attract and reward talented employees and align stockholder and employee interest. At March 31, 2004, the Company had four stock-based employee compensation plans. The number and frequency of stock option grants are based on competitive practices, operating results of the Company, the number of options available for grant under the Company's shareholder approved plans, and other factors. All employees are eligible to participate in the stock option program.

SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, defines a fair value method of accounting for issuance of stock options and other equity instruments. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the

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service period, which is usually the vesting period. Pursuant to SFAS No. 123, companies are not required to adopt the fair value method of accounting for employee stock-based transactions. Companies are permitted to account for such transactions by applying the intrinsic value method of accounting under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, but are required to disclose in a note to the consolidated financial statements pro forma net income and per share amounts as if a company had applied the methods prescribed by SFAS No. 123.

The Company applies APB Opinion No. 25 and related interpretations in accounting for its plans, stock options granted to employees and non-employee directors and has complied with the disclosure requirements of SFAS No. 123. Except for non-employee directors, the Company has not granted any options to non-employees. The Company has elected to follow APB Opinion No. 25 because the alternative fair value accounting provided for under SFAS No. 123 requires use of option valuation models, including the Black-Scholes model, that were developed for use with traded options that have no vesting restrictions and are fully transferable, as opposed to employee stock options, which are typically non-transferable and last up to ten years. Currently, management believes there is not one agreed upon option valuation method that is comparable among

Table of Contents**Citrix Systems, Inc.****Notes to Condensed Consolidated Financial Statements (As restated)****(Unaudited)****March 31, 2004**

all reporting companies. Specifically, the Black-Scholes model requires the input of highly subjective assumptions, including assumptions related to the expected stock price volatility over the expected life of the option. Because the Company's stock-based awards to employees have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing pricing models do not necessarily provide a reliable single measure of the fair value of its stock-based awards to employees. Since the Black-Scholes model is based on statistical expectations, the calculation can result in substantial earnings volatility that may not agree, as to timing or amount, with the actual gain or loss accrued or realized by the option holder.

Had compensation cost for the Company's four stock-based compensation plans been determined based on the fair value on the grant dates for grants under those plans consistent with SFAS No. 123, the Company's cash flows would have remained unchanged, however net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share information):

	Three Months Ended	Three Months Ended
	March 31, 2004	March 31, 2003
	<u> </u>	<u> </u>
Net income (loss):		
As reported	\$ 9,325	\$ 30,329
	<u> </u>	<u> </u>
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(15,259)	(24,085)
	<u> </u>	<u> </u>
Pro forma	\$ (5,934)	\$ 6,244
	<u> </u>	<u> </u>
Basic earnings (loss) per share:		
As reported	\$ 0.06	\$ 0.18
	<u> </u>	<u> </u>
Pro forma	\$ (0.04)	\$ 0.04
	<u> </u>	<u> </u>
Diluted earnings (loss) per share:		
As reported	\$ 0.05	\$ 0.18
	<u> </u>	<u> </u>
Pro forma	\$ (0.04)	\$ 0.04
	<u> </u>	<u> </u>

For purposes of the pro forma calculations, the fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model, assuming no expected dividends and the following assumptions:

	Stock options granted during the	
	three months ended	
	March 31, 2004	March 31, 2003
Expected volatility factor	0.42	0.68
Approximate risk free interest rate	3.0%	3.0%
Expected lives	4.75 years	4.70 years

3. Earnings Per Share

Basic earnings per share is calculated by dividing income available to shareholders by the weighted-average number of common shares outstanding during each period. Diluted earnings per share is computed using the weighted average number of common and dilutive common share equivalents outstanding during the period. Dilutive common share equivalents consist of shares issuable upon the exercise of stock options (calculated using the treasury stock method) and put warrants (calculated using the reverse treasury stock method) during the period they were outstanding. Certain shares under the Company's stock option program, certain put options under the Company's stock repurchase programs and common stock potentially issuable upon conversion of the Company's convertible subordinated debentures were excluded from the computation of diluted earnings per share due to their anti-dilutive effect for the respective periods.

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

	Three Months Ended March 31,	
	2004	2003
Numerator:		
Net income	\$ 9,325	\$ 30,329
Denominator:		
Denominator for basic earnings per share weighted-average shares	166,457	167,300
Effect of dilutive securities:		
Put warrants		1
Employee stock options	6,127	3,101
Dilutive common share equivalents	6,127	3,102
Denominator for diluted earnings per share weighted-average shares	172,584	170,402
Basic earnings per share	\$ 0.06	\$ 0.18
Diluted earnings per share	\$ 0.05	\$ 0.18
Anti-dilutive weighted shares	32,008	48,366

The decrease in anti-diluted weighted shares for the three months ended March 31, 2004 compared to the three months ended March 31, 2003 is due to the redemption of the Company's convertible subordinated debentures during March 2004.

4. Acquisition

On February 27, 2004, the Company acquired all of the issued and outstanding capital stock of 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.

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The consideration for this transaction was approximately \$230.6 million, comprised of approximately \$112.6 million in cash and approximately 5.6 million shares of the Company's common stock valued at approximately \$118.0 million. In addition to the purchase price, there were direct transaction costs associated with the merger of approximately \$4.4 million. The merger agreement provides for additional purchase price consideration of up to approximately 0.6 million shares of Citrix common stock to be issued to the Expertcity stockholders in the event certain revenue and other financial milestones are achieved by the Expertcity business in 2004. The fair value of the shares issued as additional purchase price consideration, if any, will be based on the market value of the Company's common stock at the date that the shares are earned. Additional purchase price consideration, if any, is expected to be recorded as goodwill.

The results of operations of Expertcity are included in the Company's results of operations beginning after February 27, 2004 and is the Company's new segment, the Citrix Online Division. The following unaudited pro forma information combines the consolidated results of operations of the Company and Expertcity as if the acquisition had occurred at the beginning of fiscal year 2003 (in thousands, except per share data):

	For the Three Months Ended	
	March 31,	
	2004	2003
	(unaudited)	
Revenues	\$ 169,000	\$ 150,723
Income from Operations	\$ 8,447	\$ 33,896
Net Income	\$ 2,596	\$ 27,457
Per share basic	\$ 0.02	\$ 0.16
Per share diluted	\$ 0.01	\$ 0.16

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Under the purchase method of accounting, the total estimated purchase price was allocated to Expertcity's net tangible and intangible assets based on their estimated fair values as of the date of the completion of the acquisition. Amounts may be adjusted, in accordance with SFAS No. 141, *Business Combinations*. Independent valuation specialists conducted a valuation in order to assist the Company in determining the fair values of a significant portion of Expertcity's net assets. The work performed by the independent valuation specialists was considered in management's allocation of the purchase price summarized below (in thousands):

	Purchase Price	Asset
	Allocation	Life
Current assets	\$ 26,085	
Property and equipment	1,998	Various
In-process research and development	18,700	
Intangible assets	50,800	3-7 years
Goodwill	161,221	Indefinite
	<hr/>	
Assets acquired	258,804	
Current liabilities	14,019	
Deferred tax liability	9,796	
	<hr/>	
Total liabilities assumed	23,815	
	<hr/>	
Net assets acquired, including direct transaction costs	\$ 234,989	
	<hr/>	

Current assets and liabilities acquired from Expertcity consisted mainly of cash and investments, accounts receivable, deferred revenues and other current liabilities.

The fair values used in the purchase price allocation were based on estimated discounted future cash flows, royalty rates and historical data, among other information. Purchased in-process research and development of approximately \$18.7 million was expensed immediately upon closing of the merger in accordance with FIN No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method* due to the fact that it pertains to technology that was not currently technologically feasible, meaning it had not reached the working model stage, did not contain all of the major functions planned for the product, was not ready for initial customer testing and had no alternative future use.

5. Goodwill and Other Intangible Assets

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Goodwill. As a result of the Expertcity acquisition during the three months ended March 31, 2004, the Company recorded approximately \$161.2 million of goodwill reflected in its new segment, the Citrix Online Division.

Intangible Assets. Intangible assets are recorded at cost, less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets, generally one to seven years. Intangible assets consist of the following (in thousands):

	March 31, 2004		December 31, 2003	
	Gross		Gross	
	Carrying	Accumulated	Carrying	Accumulated
	Amount	Amortization	Amount	Amortization
<i>Amortized intangible assets:</i>				
Core and product technologies	\$ 107,786	\$ 66,126	\$ 82,486	\$ 63,092
Other	\$ 35,010	\$ 8,267	\$ 9,447	\$ 7,541
	\$ 142,796	\$ 74,393	\$ 91,933	\$ 70,633

Amortization expense for the three months ended March 31, 2004 and 2003 was \$3.8 million and \$3.0 million, respectively. Estimated future amortization expense is as follows (in thousands):

Year ending December 31,	
2004	\$ 18,235
2005	18,819
2006	13,673
2007	8,078
2008	5,706

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Citrix Systems, Inc.

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(Unaudited)

March 31, 2004

6. Convertible Subordinated Debentures

In March 1999, the Company sold \$850 million principal amount at maturity of its zero coupon convertible subordinated debentures (the Debentures) due March 22, 2019, in a private placement. On March 22, 2004, the Company redeemed all of the outstanding Debentures for a redemption price of approximately \$355.7 million. The Company used the proceeds from its held-to-maturity investments that matured on March 22, 2004 and cash on hand to fund the aggregate redemption price. At the date of redemption, the Company incurred a charge for the associated deferred debt issuance costs of approximately \$7.2 million.

7. Segment Information

The Company operates in a single market consisting of the design, development, marketing, sales and support of access infrastructure software and services for enterprise applications, as well as Web-based desktop access. The Company's revenues are derived from MetaFrame Access Suite sales and related services in the Americas, Europe, the Middle East and Africa (EMEA) and Asia-Pacific regions and from Web-based desktop access services sold by its Citrix Online Division. These three geographic regions and the Citrix Online Division constitute the Company's four reportable segments.

The Company does not engage in intercompany revenue transfers between segments. The Company's management evaluates performance based primarily on revenues in the geographic locations in which the Company operates and separately evaluates revenues from the Citrix Online Division. Segment profit for each segment includes certain sales, marketing, research and development, general and administrative expenses directly attributable to the segment and excludes certain expenses that are managed outside the reportable segments. Costs excluded from segment profit primarily consist of research and development costs associated with the MetaFrame Access Suite products, amortization of core and product technology and other intangible assets, interest, corporate expenses and income taxes. Corporate expenses are comprised primarily of corporate marketing costs, operations and certain general and administrative expenses, which are separately managed. Accounting policies of the segments are the same as the Company's consolidated accounting policies.

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

Three Months Ended

March 31,

March 31,	
2004	2003

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Net revenues:		
Americas (1)	\$ 74,890	\$ 67,676
EMEA (2)	69,511	61,845
Asia-Pacific	14,113	13,970
Citrix Online Division	2,796	
	<u> </u>	<u> </u>
Consolidated	\$ 161,310	\$ 143,491
	<u> </u>	<u> </u>
Segment profit (loss):		
Americas (1)	\$ 42,043	\$ 33,012
EMEA (2)	42,027	38,822
Asia-Pacific	4,117	7,516
Citrix Online Division	(2,608)	
Unallocated expenses (3):		
Amortization of intangible assets	(3,760)	(2,974)
Research and development	(18,455)	(15,125)
In-process research and development	(18,700)	
Net interest and other income	(4,893)	1,460
Other corporate expenses	(27,967)	(23,323)
	<u> </u>	<u> </u>
Consolidated income before income taxes	\$ 11,804	\$ 39,388
	<u> </u>	<u> </u>

-
- (1) The Americas segment is comprised of the United States, Canada and Latin America.
(2) Defined as Europe, the Middle East and Africa
(3) Represents expenses presented to management on a consolidated basis only and not allocated to the operating segments.

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Identifiable assets classified by the Company's four reportable segments are shown below.

	<u>March 31, 2004</u>	<u>December 31, 2003</u>
	(In thousands)	
Identifiable assets:		
Americas	\$ 499,711	\$ 975,054
EMEA	392,886	328,689
Asia-Pacific	36,902	41,196
Citrix Online Division	222,050	
	<u> </u>	<u> </u>
Total identifiable assets	<u>\$ 1,151,549</u>	<u>\$ 1,344,939</u>

8. Derivative Financial Instruments

Cash Flow Hedges. At March 31, 2004 and December 31, 2003, the Company had in place foreign currency forward sale contracts with a notional amount of \$47.7 million and \$37.2 million, respectively, and foreign currency forward purchase contracts with a notional amount of \$165.8 million and \$160.9 million, respectively. The fair value of these contracts at March 31, 2004 and December 31, 2003 were assets of \$8.8 million and \$12.8 million, respectively and liabilities of \$3.4 million and \$4.9 million, respectively. A substantial portion of the Company's anticipated overseas expense and capital purchasing activities will be transacted in local currencies. To protect against unanticipated 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 forward foreign exchange contracts to reduce a portion of its exposure to these potential changes. The terms of these instruments, and the hedging transactions to which they relate, generally do not exceed 12 months. Currencies hedged are Euros, British pounds sterling, Australian dollars, Swiss francs and Japanese yen. There was no material ineffectiveness of the Company's foreign currency forward contracts for the three months ended March 31, 2004 or 2003.

Fair Value Hedges. The Company uses interest rate swap instruments to hedge against the change in fair value of certain of its available-for-sale securities due to changes in interest rates. The instruments have an aggregate notional amount of \$182.4 million related to specific available-for-sale securities and expire on various dates through September 2008. Each of the instruments swap the fixed rate interest on the underlying investments for a variable rate based on the London Interbank Offered Rate, or LIBOR, plus a specified margin. Changes in the fair value of the interest rate swap instruments are recorded in earnings along with related designated changes in the value of the underlying investments. The fair value of the instruments at March 31, 2004 and December 31, 2003 were liabilities of approximately \$5.9 million and \$4.2 million, respectively. There was no material ineffectiveness of the Company's interest rate swaps for the three months ended March 31, 2004 or 2003.

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Derivatives Not Designated as Hedges. The Company utilizes credit default contracts for investment purposes that either do not qualify or are not designated for hedge accounting treatment under SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities* and its related interpretations. Accordingly, changes in the fair value of these contracts are recorded in other income (expense), net, if any. Under the terms of these contracts, the Company assumes the default risk, above a certain threshold, of a portfolio of specified high credit quality referenced issuers in exchange for a fixed yield that is recorded in interest income. In the event of default by underlying referenced issuers above specified amounts, the Company will pay the counterparty an amount equivalent to its loss, not to exceed the notional value of the contract. The primary risk associated with these contracts is the default risk of the underlying issuers. The risk levels of these instruments are equivalent to AAA, or better, single securities. The purpose of the credit default contracts is to provide additional yield on certain of the Company's underlying available-for-sale investments.

The Company is a party to three credit default contracts, that have an aggregate notional amount of \$75.0 million that expire on various dates through March 2008. The fixed yield earned on these contracts was not material at March 31, 2004 or December 31, 2003, and is included in interest income in the accompanying condensed consolidated statements of income. For the three months ended March 31, 2004, there was no change in fair value of these credit default contracts.

The Company has restricted approximately \$86.6 million of investment securities as collateral for its credit default contracts and certain of its interest rate swaps, which is included in restricted cash equivalents and investments in the accompanying condensed consolidated balance sheet. The Company maintains the ability to manage the composition of the pledged investments within certain limits and to withdraw and use excess investment earnings from restricted collateral for operating purposes. As of March 31, 2004, the Company had \$8.8 million of derivative assets and \$9.3 million of derivative liabilities, representing the fair values of the Company's outstanding derivative instruments, which are recorded in

Table of Contents**Citrix Systems, Inc.****Notes to Condensed Consolidated Financial Statements (As restated)****(Unaudited)****March 31, 2004**

other current assets, other assets, accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets. The change in derivatives recognized in other comprehensive income presented in the table below (in thousands) includes unrealized gains (losses) that arose from changes in market value of derivatives that were held during the period, and gains (losses) that were previously unrealized, but have been recognized 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.

	Three Months Ended	
	March 31,	
	2004	2003
Unrealized gains on derivative instruments	\$ 623	\$ 3,762
Reclassification of realized gains	(3,004)	(3,512)
(Decrease) increase in net unrealized derivative gains recognized in other comprehensive income (loss) due to derivative instruments	\$ (2,381)	\$ 250

9. Comprehensive Income

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

	Three Months Ended	
	March 31,	
	2004	2003
Net income	\$ 9,325	\$ 30,329
Other comprehensive income:		
Change in unrealized gain (loss) on available-for-sale securities recognized in other comprehensive gain (loss)	(82)	460
Change in unrealized gain (loss) on derivative instruments	(2,381)	250
Comprehensive income	\$ 6,862	\$ 31,039

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

	March 31,	December 31,
	2004	2003
Unrealized gain on available-for-sale securities	\$ 545	\$ 626
Unrealized gain on derivative instruments	4,802	7,184
Accumulated other comprehensive income	\$ 5,347	\$ 7,810

10. Income Taxes

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 21% for the three months ended March 31, 2004 compared to 23% for the same period in the prior year, primarily due to the effects of the redemption of the Company's convertible subordinated debentures and the Expertcity acquisition.

11. Stock Repurchase Programs

In April 1999, the Company's board of directors authorized an ongoing stock repurchase program with an initial authority of \$200 million. During 2003, the Company's board of directors authorized the repurchase of an additional \$200 million under its stock repurchase program, increasing the total authority to \$800 million, the objective of which is to manage actual and anticipated dilution. At March 31, 2004, approximately \$163.9 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock.

The Company is authorized to make open market purchases of its common stock using general corporate funds. Additionally, from time to time, the Company has entered into structured stock repurchase arrangements with large financial institutions using general corporate funds as part of its share repurchase program in order to lower the average cost to acquire shares. Some of these programs include terms that require the Company to make up front payments to the counter-party financial institution and result in the receipt of shares or a return of our payments at the maturity of the agreement, depending on market conditions. The Company has also sold put warrants that entitled the holder of each warrant to sell to the Company, generally by physical delivery, one share of its common stock at a specified price.

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Citrix Systems, Inc.

Notes to Condensed Consolidated Financial Statements (As restated)

(Unaudited)

March 31, 2004

There was no cash expended during the first three months of 2004 under stock repurchase transactions. The Company expended \$59.5 million during the three months ended March 31, 2003, net of premiums received, under all stock repurchase transactions. During the three months ended March 31, 2004, the Company took delivery of a total of 709,969 shares of outstanding common stock with an average per share price of \$20.96; and during the three months ended March 31, 2003, the Company took delivery of a total of 4,171,670 shares of outstanding common stock with an average per share price of \$12.23. Some of these shares were received pursuant to prepaid programs that were initiated in prior periods. Since inception of the stock repurchase programs, the average cost of shares acquired was \$16.37 per share compared to an average close price during open trading windows of \$19.57 per share.

12. Legal Proceedings

The Company is a defendant in various matters of litigation 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 financial position, result of operations or cash flows.

13. Commitments

The Company is party to a synthetic lease arrangement totaling approximately \$61.0 million for its corporate headquarters office space in Fort Lauderdale, Florida. The synthetic lease represents a form of off-balance sheet financing under which an unrelated third party lessor funded 100% of the costs of acquiring the property and leases the asset to the Company. The synthetic lease qualifies as an operating lease for accounting purposes and as a financing lease for tax purposes. The Company does not include the property or the lease debt as an asset or a liability on its condensed consolidated balance sheet. Consequently, payments made pursuant to the lease are recorded as operating expenses in the Company's condensed consolidated statements of income. The Company entered into the synthetic lease in order to lease its headquarters properties under more favorable terms than under its previous lease arrangements.

The lease payments vary based on LIBOR plus a margin. If the Company chooses not to purchase the property at the end of the lease term, it has guaranteed a residual value to the lessor of approximately \$51.9 million and possession of the buildings will be returned to the lessor. If the fair value of the building were to decline below \$51.9 million, the Company would be responsible for the difference under its residual value guarantee, which could have a material adverse effect on the Company's results of operations and financial condition.

The synthetic lease includes certain financial covenants including a requirement for the Company to maintain a pledged balance of approximately \$62.8 million in cash and/or investment securities as collateral, which is classified as restricted cash equivalents and investments in the accompanying condensed consolidated balance sheets. The Company maintains the ability to manage the composition of the restricted investments within certain limits and to withdraw and use excess investment earnings from the restricted collateral for operating purposes.

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Additionally, the Company must maintain a minimum cash and investment balance of \$100.0 million, excluding the Company's collateralized investments and equity investments, as of the end of each fiscal quarter. As of March 31, 2004, the Company had approximately \$286.5 million in cash and investments in excess of those required levels. The synthetic lease includes non-financial covenants including the maintenance of the properties and adequate insurance, prompt delivery of financial statements to the lender of the lessee and prompt payment of taxes associated with the properties. As of March 31, 2004, the Company was in compliance with all material provisions of the arrangement.

During 2002 and 2001, the Company took actions to consolidate certain of its offices, including the exit of certain leased office space and the abandonment of certain leasehold improvements. Lease obligations related to these existing operating leases continue until 2025 with a total remaining obligation of approximately \$30.0 million, of which \$4.5 million, net of anticipated sublease income, was accrued for as of March 31, 2004, and is reflected in accrued expenses and other liabilities in the accompanying condensed consolidated financial statements. In estimating this accrual, the Company evaluated market information, including the estimated vacancy periods and sublease rates and opportunities. If actual circumstances prove to be different than management has estimated, the total charges for these vacant facilities could be material to our financial position, results of operations and cash flows.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Overview**

We develop, market, license and support access infrastructure software and services that enable 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. Our MetaFrame products permit organizations to provide access to Windows based, Web-based, and UNIX applications regardless of a user's location, network connection or type of client hardware platforms. We market and license our products primarily through multiple channels such as value-added resellers, channel distributors, system integrators and independent software vendors, managed by our worldwide sales force. We also promote our products through relationships with a wide variety of industry participants, including Microsoft Corporation.

Acquisition

On February 27, 2004, we acquired all of the issued and outstanding capital stock of Expertcity.com, Inc., or, Expertcity, a market leader in Web-based desktop access, as well as a leader in Web-based training and customer assistance products. The results of operations of Expertcity are included in our results of operations beginning after February 27, 2004 and are included in our segment, the Citrix Online Division.

The consideration for this transaction was approximately \$230.6 million, comprised of approximately \$112.6 million in cash and approximately 5.6 million shares of our common stock valued at approximately \$118.0 million. In addition to the purchase price, there were direct transaction costs associated with the merger of approximately \$4.4 million. The merger agreement provides for additional purchase price consideration of up to approximately 0.6 million shares of our common stock to be issued to the Expertcity stockholders in the event certain revenue and other financial milestones are achieved by the Expertcity business in 2004. The fair value of the shares issued as additional purchase price consideration, if any, will be based on the market value of our common stock at the date that the shares are earned. Additional purchase price consideration, if any, is expected to be recorded as goodwill.

Under the purchase method of accounting, the total estimated purchase price was allocated to Expertcity's net tangible and intangible assets based on their estimated fair values as of the date of the completion of the acquisition. Amounts may be adjusted, in accordance with SFAS No. 141, *Business Combinations*. Independent valuation specialists conducted a valuation in order to assist us in determining the fair values of a significant portion of Expertcity's net assets. We considered the work performed by the independent valuation specialists in our allocation of the purchase price summarized below (in thousands):

	Purchase Price	Asset
	Allocation	Life
Current assets	\$ 26,085	
Property and equipment	1,998	Various
In-process research and development	18,700	
Intangible assets	50,800	3-7 years
Goodwill	161,221	Indefinite

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Assets acquired	258,804
Current liabilities	14,019
Deferred tax liability	9,796
	<hr/>
Total liabilities assumed	23,815
	<hr/>
Net assets acquired, including direct transaction costs	\$ 234,989
	<hr/>

Current assets and liabilities acquired from Expertcity consisted mainly of cash and investments, accounts receivable, deferred revenues and other current liabilities.

Intangible assets are comprised primarily of core and product technology, trade names, covenants not to compete and customer relationships. The valuation of core and product technology was based on the estimated discounted future cash flows associated with Expertcity's existing products. The valuation of the trade names was determined based on assigning a royalty rate to the revenue stream that was expected from the services using the trade name. The pre-tax royalty rate was applied to the product revenue and discounted to a present value. The value of customer relationships was determined based on estimated future discounted cash flows of the relationships in place after considering historical attrition rates.

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We expensed purchased in-process research and development of approximately \$18.7 million immediately upon closing of the merger in accordance with FIN No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method* due to the fact that it pertains to technology that was not currently technologically feasible, meaning it had not reached the working model stage, did not contain all of the major functions planned for the product, was not ready for initial customer testing and had no alternative future use. For more information regarding the in-process research and development acquired from Expertcity, see Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations and note 4 to our condensed consolidated financial statements.

Revenue Recognition

The accounting related to revenue recognition in the software industry is complex and affected by interpretations of the rules and an understanding of industry practices, both of which are subject to change. As a result, revenue recognition accounting rules require us to make significant judgments. In addition, our judgment is required in assessing the probability of collection, which is generally based on evaluation of customer-specific information, historical collection experience and economic market conditions.

We sell most of our software products bundled with an initial subscription for software license updates that provide the end-user with free enhancements and upgrades to the licensed product on a when and if available basis. Customers may also elect to purchase technical support, product training or consulting services. We allocate revenue to software license updates and any other undelivered elements of the arrangement based on vendor specific objective evidence, or 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 revenue, net of any discounts inherent in the arrangement, is allocated to the delivered software product using the residual method and recognized at the outset of the arrangement as the software licenses are delivered. If we cannot objectively determine the fair value of each undelivered element based on VSOE, we defer revenue recognition until all elements are delivered, all services have been performed, or until fair value can be objectively determined. We must apply judgment in determining all elements of the arrangement and in determining the VSOE of fair value for each element, considering the price charged for each product or applicable renewal rates for software license updates.

In the normal course of business, we do not permit product returns, but we do provide most of our distributors and value added resellers with stock balancing and price protection rights. Stock balancing rights permit distributors to return products to us by the forty-fifth day of the fiscal quarter, subject to ordering an equal dollar amount of our other products prior to the last day of the same fiscal quarter. Price protection rights require that we grant retroactive price adjustments for inventories of our products held by distributors or resellers if we lower our prices for such products. We establish provisions for estimated returns for stock balancing and price protection rights, as well as other sales allowances, concurrently with the recognition of revenue. The provisions are established based upon consideration of a variety of factors, including, among other things, recent and historical return rates for both specific products and distributors, estimated distributor inventory levels by product, the impact of any new product releases and projected economic conditions. Actual product returns for stock balancing and price protection provisions incurred are, however, dependent upon future events, including the amount of stock balancing activity by our distributors and the level of distributor inventories at the time of any price adjustments. We continually monitor the factors that influence the pricing of our products and distributor inventory levels and make adjustments to these provisions when we believe actual returns and other allowances could differ from established reserves. Our ability to recognize revenue upon shipment to our distributors is predicated on our ability to reliably estimate future stock balancing returns. If actual experience or changes in market condition impairs our ability to estimate returns, we would be required to defer the recognition of revenue until the delivery of the product to the end-user. Allowances for estimated product returns amounted to approximately \$3.1 million at March 31, 2004 and \$3.0 million at December 31, 2003. We have not reduced and have no current plans to reduce our prices for inventory currently held by distributors or resellers. Accordingly, there were no reserves required for price protection at March 31, 2004 or December 31, 2003. We record estimated reductions to revenue for customer programs and incentive offerings including volume-based incentives. If market conditions were to decline, we could take actions to increase our customer incentive offerings, which could result in an incremental reduction to our revenue at the time the incentive is offered.

Table of Contents**Stock-Based Compensation Disclosures**

Our stock option program is a broad based, long-term retention program that is intended to attract and reward talented employees and align stockholder and employee interest. The number and frequency of stock option grants are based on competitive practices, our operating results, the number of options available for grant under our approved shareholder plans and other factors. All employees are eligible to participate in the stock option program.

Statement of Financial Accounting Standards, or SFAS, No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, defines a fair value method of accounting for issuance of stock options and other equity instruments.

Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. Pursuant to SFAS No. 123, companies are not required to adopt the fair value method of accounting for employee stock-based transactions. Companies are permitted to account for such transactions under Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*, but are required to disclose in a note to the consolidated financial statements pro forma net income and per share amounts as if a company had applied the methods prescribed by SFAS No. 123.

As of March 31, 2004, we had four stock-based compensation plans. We grant stock options for a fixed number of shares to employees with an exercise price equal to or above the fair value of the shares at the date of grant. As discussed above and in note 2 to our condensed consolidated financial statements, we apply the intrinsic value method under APB Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for our fixed stock plans and our stock purchase plan. However, the impact on our condensed consolidated financial statements from the use of options is reflected in the calculation of earnings per share in the form of dilution (see note 3).

The following table (in thousands, except option price) provides information as of March 31, 2004 about the securities authorized for issuance to our employees and directors under our fixed stock compensation plans, consisting of our Amended and Restated 1995 Stock Plan, the Second Amended and Restated 1995 Employee Stock Purchase Plan, the 1995 Non-Employee Director Option Plan and the Second Amended and Restated 2000 Director and Officer Stock Option and Incentive Plan:

Plan	(A) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(B) Weighted-average exercise price of outstanding options, warrants and rights	(C) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))
Equity compensation plans approved by security holders	39,182	\$ 24.42	44,513

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Equity compensation plans not approved by security holders

Total	39,182	\$	24.42	44,513
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The following table provides information about stock options granted for the three months ended March 31, 2004 and for the year ended December 31, 2003 for employees, non-employee directors and for certain executive officers. The stock option data for listed officers relates to our Named Executive Officers. The 2002 Named Executive Officers for the three months ended March 31, 2003 represent our Chief Executive Officer and the four other most highly compensated executive officers who earned total annual salary and bonus in excess of \$100,000 in 2002, as reported in our Proxy Statement dated April 4, 2003. The 2003 Named Executive Officers for the three months ended March 31, 2004 consist of our chief executive officer and the four other most highly compensated executive officers who earned a total salary and bonus in excess of \$100,000 in 2003, as reported in our Proxy Statement dated April 2, 2004 and who are current employees:

	Three Months Ended	Year Ended
	March 31, 2004	December 31, 2003
Net grants to all employees, non-employee directors and executive officers as a percent of outstanding shares (1) (2)	0.95%	1.03%
Grants to Named Executive Officers as a percent of outstanding shares (2)	0.00%	0.24%
Grants to Named Executive Officers as a percent of total options granted	0.00%	6.89%
Cumulative options held by Named Executive Officers as a percent of total options outstanding (3)	9.18%	10.08%

- (1) Net grants represent total options granted during the period net of options forfeited during the period.
(2) Calculation is based on outstanding shares of common stock as of the beginning of the respective period.
(3) Calculation is based on total options outstanding as of the end of the respective period.

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The following table presents our option activity from December 31, 2002 through March 31, 2004 (in thousands, except weighted-average exercise price). Some amounts may not add due to rounding.

	Options Available for Grant	Options Outstanding	
		Number of	Weighted Average
		Shares	Exercise Price
Balance at December 31, 2002	30,001	41,221	\$ 24.51
Granted at market value	(5,575)	5,575	16.19
Granted above market value	(349)	349	12.00
Exercised		(4,723)	11.64
Forfeited/cancelled	4,199	(4,199)	28.14
Reduction in plan shares (1)	(500)	N/A	N/A
Additional shares reserved	9,249	N/A	N/A
Balance at December 31, 2003	37,025	38,222	24.56
Granted at market value	(1,864)	1,864	20.74
Exercised		(598)	13.34
Forfeited/cancelled	306	(306)	24.56
Additional shares reserved	9,046	N/A	N/A
Balance at March 31, 2004	44,513	39,182	24.42

- (1) The number of shares reserved for issuance under our Amended and Restated 2000 Director and Officer Stock Option and Incentive Plan was reduced by 500,000 shares pursuant to an amendment to such option plan authorized by our Board of Directors on May 15, 2003.

A summary of our in-the-money and out-of-the-money option information as of March 31, 2004 is as follows (in thousands, except weighted average exercise price):

	Exercisable		Unexercisable		Total	
	Weighted Average		Weighted Average		Weighted Average	
	Shares	Exercise Price	Shares	Exercise Price	Shares	Exercise Price
In-the-money	11,048	13.96	10,662	14.00	21,710	13.98
Out-of-the-money (1)	15,185	38.62	2,287	29.33	17,472	37.40
Total options outstanding	26,233	28.23	12,949	16.71	39,182	24.42

- (1) Out-of-the-money options are those options with an exercise price equal to or above the closing price of \$21.62 per share for our common stock at March 31, 2004.

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There were no stock options granted to 2003 Named Executive Officers during the quarter ended March 31, 2004.

The following table presents certain information regarding option exercises and outstanding options held by 2003 Named Executive Officers as of and for the quarter ended March 31, 2004:

	Shares		Number of Securities	
	Acquired on	Value	Underlying Unexercised	
			Options at March 31, 2004	Values of Unexercised In-the-
	Exercise (#)	Realized \$(1)	Exercisable/Unexercisable	Money Options at March 31, 2004 (\$)
			Exercisable/Unexercisable (2)	
Mark Templeton			1,936,252 / 191,248	\$ 5,447,294 / \$1,310,331
John Burris			424,074 / 111,676	\$ 694,525 / \$ 871,062
Robert Kruger			237,909 / 166,683	\$ 577,247 / \$ 896,830
David Henshall			0 / 200,000	\$ 0 / \$1,452,000
Stefan Sjostrom			196,928 / 130,322	\$ 401,953 / \$ 664,513

- (1) Amounts disclosed in this column were calculated based on the difference between the fair market value of our common stock on the date of exercise and the exercise price of the options in accordance with regulations promulgated under the Securities and Exchange Act of 1934, as amended (the Exchange Act), and do not reflect amounts actually received by the named officers.
- (2) Value is based on the difference between the option exercise price and the fair market value at March 31, 2004 (\$21.62 per share), multiplied by the number of shares underlying the option.

For further information regarding our stock option plans, see note 2 to our condensed consolidated financial statements.

Table of Contents**Critical Accounting Policies and Estimates**

Our discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. We base these estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances, and these estimates form the basis for our judgments concerning the carrying values of assets and liabilities that are not readily apparent from other sources. We periodically evaluate these estimates and judgments based on available information and experience. Actual results could differ from our estimates under different assumptions and conditions. If actual results significantly differ from our estimates, our financial condition and results of operations could be materially impacted. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates included in our Annual Report on Form 10-K for the year ended December 31, 2003, as amended, for further information regarding our critical accounting policies and estimates.

The notes to the consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2003, as amended, the unaudited interim condensed consolidated financial statements and the related notes to the unaudited interim condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q/A and the factors and events described elsewhere in Management's Discussion and Analysis of Financial Condition and Results of Operations, including in Certain Factors Which May Affect Future Results, contain additional information related to our accounting policies and should be read in conjunction with the following discussion and analysis relating to the individual financial statement captions and our overall financial performance, operations and financial position.

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.

	Three Months Ended		Increase/ (decrease) for the Three Months Ended March 31, 2004 vs. March 31, 2003
	March 31,		
	2004	2003	
Revenues:			
Software licenses	\$ 87,426	\$ 96,874	(9.8)%
Software license updates	58,897	35,240	67.1
Services	14,987	11,377	31.7
Total net revenues	161,310	143,491	12.4
Cost of revenues:			
Cost of software license revenues	1,413	3,293	(57.1)
Cost of services revenues	2,823	1,438	96.3
Amortization of core and product technology (a)	3,034	2,874	5.6

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Total cost of revenues(a)	7,270	7,605	4.4
Gross margin	154,040	135,886	13.4
Operating expenses:			
Research and development	19,038	15,125	25.9
Sales, marketing and support	74,128	61,711	20.1
General and administrative	24,751	21,022	17.7
Amortization of other intangible assets(a)	726	100	*
In-process research and development	18,700		*
Total operating expenses(a)	137,343	97,958	40.2
Income from operations	16,697	37,928	(56.0)
Interest income	5,685	5,663	0.4
Interest expense	(4,344)	(4,549)	(4.5)
Write-off of deferred debt issuance costs	(7,219)		*
Other income, net	985	346	184.7
Income before income taxes	11,804	39,388	(70.0)
Income taxes	2,479	9,059	(72.6)
Net income	\$ 9,325	\$ 30,329	(69.3)%

* Not meaningful.

(a) We reclassified the amortization of core and product technology previously classified as an operating expense to a component of cost of revenues. See note 1 to our condensed consolidated financial statements.

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Net Revenues. Our operations consist of the design, development, marketing and support of access infrastructure software and services that enable effective and efficient enterprise-wide deployment and management of applications and information.

Net revenues include the following categories: Software Licenses, Software License Updates, and Services. Software Licenses primarily represents fees related to the licensing of our MetaFrame products, additional user licenses and management products (such as load balancing and resource management products). These amounts are reflected net of sales allowances and provisions for stock balancing return rights. The MetaFrame Presentation Server product accounted for approximately 96.3% of our Software License revenue for the three months ended March 31, 2004 and 98.6% of our Software License revenue for the three months ended March 31, 2003. Software License Updates consists 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 (our terminology for PCS) 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 the subscription. Services consist primarily of technical support services and Web-based desktop access services revenue recognized ratably over the contract term, revenue from product training and certification, and consulting services revenue related to implementation of our software products, which are recognized as the services are provided

The \$17.8 million increase in net revenues for the three months ended March 31, 2004 compared to the three months ended March 31, 2003 was due primarily to a significant increase in revenues from Software License Updates mainly due to the continued acceptance of our renewable Subscription Advantage program. To a lesser extent the increase was due to an increase in Services revenue due primarily to the Expertcity acquisition. We currently expect Services revenue, which includes revenues from our Citrix Online Division, to increase over the next three months as a result of the acquisition. For more information on segment revenue, see note 7 to our condensed consolidated financial statements. These increases were partially offset by a decrease in revenue from Software Licenses, due primarily to the bundling of Subscription Advantage with the initial purchase of all products and the trend towards larger deals in the enterprise, which typically result in a greater portion of Software Licenses revenue being deferred. We expect to see a moderate increase in Software Licenses revenue during 2004. In addition, we expect Subscription Advantage to continue to be of strategic importance to our business in 2004 because it fosters long-term customer relationships and gives us improved visibility and predictability due to the recurring nature of this revenue stream.

Deferred revenues, primarily related to Citrix Subscription Advantage and Services revenues, increased approximately \$18.6 million as compared to December 31, 2003. This increase was due primarily to the Expertcity acquisition and increased renewals of Citrix Subscription Advantage. In addition, to a lesser extent the increase was due to additional enterprise customer license arrangements, which typically result in a greater portion of revenue being deferred. We currently expect Subscription Advantage renewals to continue to increase and as a result we currently expect deferred revenue to also increase during 2004.

International and Segment Revenues. International revenues (sales outside of the United States) accounted for approximately 56% of net revenues for both the three months ended March 31, 2004 and the three months ended March 31, 2003. For detailed information on international revenues, please refer to note 7 to our condensed consolidated financial statements appearing in this report. Our Citrix Online Division segment was established as a result of the acquisition of Expertcity in February 2004. The Citrix Online Division provides Web-based desktop access and Web-based training and customer assistance through its GoToMyPC, GoToAssist and GoToMeeting families of services.

An analysis of our reportable segment net revenue as a percentage of net revenue is presented below:

Three Months Ended	Increase (Decrease) for the
March 31,	Three Months Ended

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	<u>2004</u>	<u>2003</u>	<u>March 31, 2004 vs.</u> <u>March 31, 2003</u>
Americas (1)	46.4%	47.2%	10.7%
EMEA (2)	43.1	43.1	12.4
Asia-Pacific	8.8	9.7	1.0
Citrix Online Division	1.7		*
Net revenues	<u>100.0%</u>	<u>100.0%</u>	<u>12.4%</u>

* not meaningful.

- (1) Our Americas segment is comprised of the United States, Canada and Latin America.
 (2) Defined as Europe, Middle East and Africa.

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With respect to our segment revenues, the increase in net revenues for the three months ended March 31, 2004 compared to the three months ended March 31, 2003, was due primarily to the factors previously discussed across all segments. For additional information on segment revenues, please refer to note 7 to our condensed consolidated financial statements.

Cost of Revenues. Cost of revenues consisted primarily of the amortization of product and core technology, compensation cost and other personnel-related costs of providing services, as well as costs of product media and duplication, manuals, packaging materials, shipping expense, service capacity costs and royalties. The \$1.9 million decrease in the cost of software license revenues for the three months ended March 31, 2004 compared to the three months ended March 31, 2003, was due primarily to a decrease in cost of royalties due to the expiration of certain royalty agreements. The \$1.4 million increase in cost of services revenues for the three months ended March 31, 2004 compared to the three months ended March 31, 2003, was due primarily to an increase in cost of revenues resulting from the Expertcity acquisition. Amortization of core and product technology remained relatively unchanged for the three months ended March 31, 2004 compared to the three months ended March 31, 2003.

Gross Margin. Gross margin as a percent of revenue was 95.5% for the three months ended March 31, 2004 and 94.7% for the three months ended March 31, 2003. The increase in gross margin is due primarily to the factors mentioned above. We currently anticipate that in the next 12 months, gross margin as a percentage of net revenues will remain relatively unchanged as compared with current levels. However, gross margin could fluctuate from time to time based on a number of factors attributable to the cost of revenues as described above.

In February 2004, we acquired all of the issued and outstanding capital stock of Expertcity for approximately \$230.6 million. As a result of the acquisition, we currently expect operating expenses to increase over the next three months. For more information regarding the acquisition see Management's Discussion and Analysis of Financial Condition and Results of Operations Acquisition and note 4 to our condensed consolidated financial statements.

Research and Development Expenses. Research and development expenses consisted primarily of personnel-related costs. We expensed all development costs included in the research and development of software products and enhancements to existing products as incurred except for certain core technologies. Research and development expenses increased approximately \$3.9 million for the three months ended March 31, 2004 compared to the three months ended March 31, 2003, primarily due to increased headcount, associated salaries and related expenses.

Sales, Marketing and Support Expenses. Sales, marketing and support expenses increased approximately \$12.4 million for the three months ended March 31, 2004 compared to the three months ended March 31, 2003 primarily from additional sales personnel and an increase in staffing and associated personnel costs related to the Expertcity acquisition. In addition, there was an increase in marketing program costs resulting from our worldwide brand awareness and advertising campaign and from the Expertcity acquisition. These increases were partially offset by a decrease in costs incurred for external consultants associated with product training and a decrease in distributor commissions.

General and Administrative Expenses. General and administrative expenses increased approximately \$3.7 million for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003, primarily due to an increase in headcount, associated salaries and employee related expenses as well as increases in external consulting and services associated with new regulatory requirements and information systems. This increase was partially offset by a decrease in legal fees and depreciation expense.

Amortization of Other Intangible Assets. The modest increase in amortization of other intangible assets for the three months ended March 31, 2004 compared to the three months ended March 31, 2003 was due primarily to the acquisition of certain finite lived intangible assets associated with Expertcity. For more information regarding the Expertcity acquisition see Management's Discussion and Analysis of Financial Condition

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and Results of Operation Acquisitions and note 4 to our condensed consolidated financial statements.

In-process Research and Development. In February 2004, we acquired Expertcity, and \$18.7 million of the purchase price was allocated to in-process research and development, or IPR&D and was written off at the time of acquisition. The

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amounts allocated to IPR&D was for projects that had not yet reached technological feasibility and had no alternative future use. For more information regarding the Expertcity acquisition, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Acquisitions and note 4 to our condensed consolidated financial statements.

Our efforts with respect to the acquired technologies currently consist of design and development that may be required to support the release of the technologies into updated versions of existing service offerings and potentially new product and service offerings by our Citrix Online Division. We currently expect that we will successfully develop new products or services utilizing the acquired in-process technology, but there can be no assurance that commercial viability of future product or service offerings will be achieved. Furthermore, future developments in the software industry, changes in technology, changes in other products and offerings or other developments may cause us to alter or abandon product plans.

Interest Income. Interest income remained relatively unchanged for the three months ended March 31, 2004 compared to the three months ended March 31, 2003. During the three months ended March 31, 2004 we used cash of approximately \$355.7 million for the redemption in March 2004 of our convertible subordinated debentures and we paid approximately \$112.6 million in cash for the Expertcity acquisition. Accordingly, we currently believe that our lower cash and investment balances during 2004 will significantly reduce our interest income during 2004. For more information see Management's Discussion and Analysis of Financial Condition and Results of Operations - Acquisitions and Liquidity and Capital Resources and notes 4 and 6 to our condensed consolidated financial statements.

Interest Expense. Interest expense remained relatively unchanged for the three months ended March 31, 2004 compared to the three months ended March 31, 2003 and primarily represented non-cash interest and accretion on our convertible subordinated debentures. We currently expect interest expense to decrease substantially during 2004 due to the redemption of our convertible subordinated debentures. For more information see Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources and note 6 to our condensed consolidated financial statements.

Other Income, Net. Other income, net is primarily comprised of remeasurement and foreign currency transaction gains (losses) and realized gains (losses) on the sale of our investments. Other income, net for the three months ended March 31, 2004 compared to the three months ended March 31, 2003, increased approximately \$0.6 million due primarily to the realized gain on the maturity of our held-to-maturity investments and associated derivative instruments.

Income Taxes. 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 21% for the three months ended March 31, 2004 compared to 23% for the same period in the prior year, primarily due to the effects of the redemption of our convertible subordinated debentures and the Expertcity acquisition.

Liquidity and Capital Resources

EXPLANATORY NOTE

In response to comments received from the staff (the Staff) of the Securities and Exchange Commission (the SEC) in connection with the Staff's normal periodic review of our filings, we are restating our accompanying March 31, 2004 and December 31, 2003 condensed

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consolidated balance sheets to correct an error in the classification of certain cash equivalents and investments that are pledged as collateral under our synthetic lease arrangement, credit default contracts and interest rate swaps to classify such assets separately as restricted cash equivalents and investments. In our filings with the SEC, we previously disclosed in narrative form the specific amounts pledged under our synthetic lease arrangement, credit default contracts and interest rate swaps from the inception of each arrangement and are now separately classifying the aggregate amounts pledged as long-term restricted cash equivalents and investments in our condensed consolidated balance sheets. Please refer to Note 1 to the accompanying condensed consolidated financial statements for additional information.

During the three months ended March 31, 2004, we generated positive operating cash flows of \$78.0 million. These cash flows related primarily to net income of \$9.3 million, adjusted for, among other things, tax benefits from the exercise of non-statutory stock options and disqualifying dispositions of incentive stock options of \$4.0 million, non-cash charges, including depreciation and amortization expenses of \$8.7 million, the write-off of in-process research and development associated with the Expertcity acquisition of \$18.7 million, the write-off of deferred debt issuance costs on our convertible subordinated debentures of \$7.2 million and an aggregate increase in cash flow from our operating assets and liabilities of \$23.3 million. Our investing activities provided \$216.1 million of cash consisting primarily of the net proceeds, after reinvestment, from sales and maturities of investments of \$312.4 million, partially offset cash paid for the Expertcity acquisition, net of cash acquired, of \$90.8 million, and the expenditure of \$4.2 million for the purchase of property and equipment. Our financing activities used cash of \$345.4 million related primarily to our expenditure of \$355.7 million to redeem our convertible subordinated debentures.

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During the three months ended March 31, 2003, we generated positive operating cash flows of \$59.4 million. These cash flows related primarily to net income of \$30.3 million, adjusted for, among other things, tax benefits from the exercise of non-statutory stock options and disqualifying dispositions of incentive stock options of \$2.7 million, non-cash charges, including depreciation and amortization expenses of \$10.2 million, the accretion of original issue discount and amortization of financing costs on our convertible subordinated debentures of \$4.5 million and an aggregate increase in cash flow from our operating assets and liabilities of \$11.2 million. Our investing activities used \$3.9 million of cash consisting primarily of net purchases, after proceeds from sales and maturities, of investments of \$2.1 million and the expenditure of \$1.4 million for the purchase of property and equipment. Our financing activities used cash of \$55.1 million related primarily to the expenditure of \$60.2 million for the stock repurchase program, partially offset by the proceeds received from the issuance of common stock under our employee stock compensation plans and the sale of put warrants of \$5.1 million.

Cash and Investments

As of March 31, 2004, we had \$386.8 million in cash and investments compared to \$751.8 million at December 31, 2003. In addition, we had \$85.8 million in working capital at March 31, 2004 as compared to \$146.8 million at December 31, 2003. The decrease in working capital and cash and investments as compared to December 31, 2003, was due primarily to expenditures related to the Expertcity acquisition and the redemption of our convertible subordinated debentures. See *Liquidity and Capital Resources* *Convertible Subordinated Debentures* and note 4 to our condensed consolidated financial statements for further information. 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 and long-term investments primarily consist of interest bearing securities.

In December 2000, we invested \$158.1 million in held-to-maturity investments managed by an investment advisor. Our investments matured on March 22, 2004, and we received \$195.4 million, all of which was used to redeem a portion of our convertible subordinated debentures.

We have invested in instruments with credit risk features. This means that these investments are at risk to the extent that the entities issuing the underlying corporate securities have credit events above specified amounts that result in a loss to the counterparty. There have been no credit events associated with the entities issuing the underlying corporate securities that have resulted in a loss to us.

Restricted Cash Equivalents and Investments

As of March 31, 2004, we had \$149.4 million in restricted cash equivalents and investments. Approximately \$62.8 million in investment securities and cash equivalents were pledged as collateral for specified obligations under our synthetic lease arrangement and approximately \$86.6 million in investment securities were pledged as collateral for certain of our credit default contracts and interest rate swaps. We maintain the ability to manage the composition of the restricted cash equivalents and investments within certain limits and to withdraw and use excess investment earnings from the pledged collateral for operating purposes.

Accounts Receivable, Net

At March 31, 2004, we had approximately \$67.6 million in accounts receivable, net of allowances. The \$19.8 million decrease in accounts receivable as compared to December 31, 2003 resulted from the sales distribution in the quarter due primarily to some distributors purchasing product ahead of the February introduction of a new reseller commission program called Advisor Rewards.

Convertible Subordinated Debentures

In March 1999, we sold \$850 million principal amount at maturity of our zero coupon convertible subordinated debentures due March 22, 2019, in a private placement. On March 22, 2004, we redeemed all of the outstanding debentures for a redemption price of approximately \$355.7 million. We used the proceeds from our held-to-maturity investments that matured on March 22, 2004 and cash on hand to fund the aggregate redemption price. At the date of redemption, we incurred a charge for the associated deferred debt issuance costs of approximately \$7.2 million.

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Stock Repurchase Program

In April 1999, our board of directors authorized an ongoing stock repurchase program with initial authority of \$200 million. During 2003, our board of directors authorized the repurchase of an additional \$200 million under our stock repurchase program, increasing the total authority to \$800 million, the objective of which is to manage actual and anticipated dilution. At March 31, 2004, approximately \$163.9 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock.

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 as part of our share repurchase program in order to lower our average cost to acquire shares. Some of these programs include terms that require us to make up front payments to the counter-party financial institution and result in the receipt of shares or a return of our payments at the maturity of the agreement, depending on market conditions. We have also sold put warrants that entitled the holder of each warrant to sell to us, generally by physical delivery, one share of our common stock at a specified price.

There was no cash expended during the first three months of 2004 under stock repurchase transactions. We expended \$59.5 million during the three months ended March 31, 2003, net of premiums received, under all stock repurchase transactions. During the three months ended March 31, 2004, we took delivery of a total of 709,969 shares of outstanding common stock with an average per share price of \$20.96; and during the three months ended March 31, 2003, we took delivery of a total of 4,171,670 shares of outstanding common stock with an average per share price of \$12.23. Some of these shares were received pursuant to prepaid programs that were initiated in prior periods. Since inception of the stock repurchase programs, the average cost of shares acquired was \$16.37 per share compared to an average close price during open trading windows of \$19.57 per share.

Off-Balance Sheet Arrangements

We are a party to synthetic lease arrangement totaling approximately \$61.0 million for our corporate headquarters office space in Fort Lauderdale, Florida. The synthetic lease represents a form of off-balance sheet financing under which an unrelated third party lessor funded 100% of the costs of acquiring the property and leases the asset to us. The synthetic lease qualifies as an operating lease for accounting purposes and as a financing lease for tax purposes. We do not include the property or the lease debt as an asset or a liability on our condensed consolidated balance sheet. Consequently, payments made pursuant to the lease are recorded as operating expenses in our condensed consolidated statements of income. We entered into the synthetic lease in order to lease our headquarters properties under more favorable terms than under our previous lease arrangements.

The initial term of the synthetic lease is seven years. Upon approval by the lessor, we can renew the lease twice for additional two-year periods. The lease payments vary based on the London Interbank Offered Rate, or LIBOR, plus a margin. At any time during the lease term, we have the option to sublease the property, and upon thirty-days written notice, we have the option to purchase the property for an amount representing the original property cost and transaction fees of approximately \$61.0 million plus any lease breakage costs and outstanding amounts owed. Upon at least 180 days notice prior to the termination of the initial lease term, we have the option to remarket the property for sale to a third party. If we choose not to purchase the property at the end of the lease term, we have guaranteed a residual value to the lessor of approximately \$51.9 million and possession of the buildings will be returned to the lessor. On a periodic basis, we evaluate the property for indications of permanent impairment. If an evaluation were to indicate that the fair value of the property were to decline below \$51.9 million, we would be responsible for the difference under our residual value guarantee, which could have a material adverse effect on our results of operations and financial condition.

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The synthetic lease includes certain financial covenants including a requirement for us to maintain a pledged balance of approximately \$62.8 million in cash and/or investment securities as collateral, which is classified as restricted cash equivalents and investments in our accompanying condensed consolidated balance sheet. We maintain the ability to manage the composition of the restricted investments within certain limits and to withdraw and use excess investment earnings from the restricted collateral for operating purposes. Additionally, we must maintain a minimum cash and investment balance of \$100.0 million, excluding our collateralized investments and equity investments, as of the end of each fiscal quarter. As of March 31, 2004, we had approximately \$286.5 million in cash and investments in excess of those required levels. The synthetic lease includes non-financial covenants including the maintenance of the properties and adequate insurance, prompt delivery of financial statements to the lender of the lessee and prompt payment of taxes associated with the properties. As of March 31, 2004, we were in compliance with all material provisions of the arrangement.

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Commitments

During 2002 and 2001, we took actions to consolidate certain of our offices, including the exit of certain leased office space and the abandonment of certain leasehold improvements. Lease obligations related to these existing operating leases continue until 2025 with a total remaining obligation of approximately \$30.0 million, of which \$4.5 million, net of anticipated sublease income, was accrued for as of March 31, 2004, and is reflected in accrued expenses and other liabilities in our condensed consolidated financial statements. In estimating this accrual, we evaluated market information, including the estimated vacancy periods and sublease rates and opportunities. If actual circumstances prove to be different than management has estimated, the total charges for these vacant facilities could be material to our financial position, results of operations and cash flows.

During 2004 and 2003, significant portions of our cash inflows were generated by operations. Although we believe existing cash and investments together with cash flow expected from operations will be sufficient to meet operating and capital expenditures requirements for the next 12 months, future operating results and expected cash flow from operations could vary if we experience a decrease in customer demand or a decrease in customer acceptance of future product offerings. We continue to search for suitable acquisition candidates and could acquire or make investments in companies we believe are related to our strategic objectives. Such investments could reduce our available working capital. We could from time to time seek to raise additional funds through the issuance of debt or equity securities, although there can be no assurances that additional funds would be available at an acceptable cost of capital or at all depending on market conditions and other factors.

Certain Factors Which May Affect Future Results

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 could contain forward-looking information that involves risks and uncertainties. In particular, statements contained in this Form 10-Q, and in the documents incorporated by reference into this Form 10-Q, that are not historical facts, including, but not limited to statements concerning new products, inventory, product development and offerings, product pricing, product and price competition, deferred revenues, interest expense, interest income, economic and market conditions, revenue recognition, Subscription Advantage, profits, growth of revenues, technology relationships, reinvestment of foreign earnings, gross margins, goodwill, intangible assets, impairment charges, anticipated operating and capital expenditure requirements, leasing and subleasing activities, acquisitions, investment transactions, liquidity, working capital, litigation matters, intellectual property matters, distribution channels, stock price, licensing models and potential debt or equity financings constitute forward-looking statements and are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are neither promises nor guarantees. Our actual results of operations and financial condition have varied and could in the future vary significantly from those stated in any forward-looking statements. The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Form 10-Q, in the documents incorporated by reference into this 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.

Because of our relationship with Microsoft, our business could be adversely impacted by commercialization, source code access and compatibility risks.

Our relationship with Microsoft is subject to the following risks and uncertainties, some of which could cause a material adverse effect on our business, results of operations and financial condition:

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Successful Commercialization of Microsoft Operating Systems. Our ability to successfully commercialize Citrix MetaFrame access infrastructure is directly related to Microsoft's ability to market Windows 2000 Servers and Windows Server 2003, or collectively Windows Server Operating Systems, products. We do not have control over Microsoft's distributors and resellers and, to our knowledge, Microsoft's distributors and resellers are not obligated to purchase products from Microsoft. Additionally, there could be delays in the release and shipment of future versions of Windows Server Operating Systems.

Termination of the Microsoft Source Licensing Agreement. In May 2002, we signed an agreement with Microsoft that provides us access to Microsoft Windows Server source code for current and future Microsoft server operating systems, including access to Windows Server 2003 and terminal services source code, during the three year term

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of the agreement. Microsoft could terminate the current agreement before the expiration of the three-year term for breach and upon our change of control. If Microsoft does terminate the current agreement, our restricted access to source code for current and future Microsoft server operating systems could negatively impact the timing of our release of future products and enhancements.

Our Agreements with Microsoft are Short in Duration. There can be no assurances that our current agreements with Microsoft will be extended or renewed by Microsoft after their respective expirations. Our failure to renew certain terms of these agreements with Microsoft in a manner favorable to us could negatively impact the timing of our release of future products and enhancements.

Compatibility. Future product offerings by Microsoft may not provide for compatibility with our products, upon release of such offerings from Microsoft. The lack of compatibility between future Microsoft products and our products could negatively impact the timing of our release of future products and enhancements.

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

The demand for our products depends substantially upon the general demand for business-related computer hardware and software, which fluctuates based on numerous factors, including capital spending levels, the spending levels and growth of our current and prospective customers and general economic conditions. Fluctuations in the demand for our products could have a material adverse effect on our business, results of operations and financial condition. In 2002 and for part of 2003, adverse economic conditions decreased demand for our products and negatively impacted our financial results. Future economic projections for the IT sector are uncertain. If the weakened environment persists and slow IT spending continues, it could continue to negatively impact our business, results of operations and financial condition.

Sales of products within our MetaFrame Access Suite constitute a substantial majority of our revenue.

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

new competitive product releases and updates to existing products,

price competition,

technological change,

decreasing or stagnant information technology spending levels,

general economic conditions, or

lack of success of entities with which we have a technology relationship.

If our customers do not continue to purchase our MetaFrame products as a result of these or other factors, our revenue would decrease and our results of operations and financial condition would be adversely affected.

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

The markets for our products are characterized by:

rapid technological change;

evolving industry standards;

fluctuations in customer demand;

changes in customer requirements; and

frequent new product introductions and enhancements.

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

delays in our introduction of new products;

delays in market acceptance of new products or new releases of our current products; and

our, or a competitor's, announcement of new product enhancements or technologies that could replace or shorten the life cycle of our existing product offerings.

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

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

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

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

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

our sales force generally needs to explain and demonstrate the benefits of a large-scale deployment of our product to potential and existing customers prior to sale;

our service personnel typically spend a significant amount of time assisting potential customers in their testing and evaluation of our product;

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our customers are typically large and medium size organizations that carefully research their technology needs and the many potential projects prior to making capital expenditures for software infrastructure; and

before making a purchase, our potential customers usually must get approvals from various levels of decision makers within their organizations, and this process can be lengthy.

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

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

We compete in intensely competitive markets. Some of our competitors and potential competitors have significantly greater financial, technical, sales and marketing and other resources than we do.

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For example, our ability to market the Citrix MetaFrame Access Suite, and its individual products including: Citrix MetaFrame Presentation Server, Citrix MetaFrame Secure Access Manager, Citrix MetaFrame Conferencing Manager and Citrix MetaFrame Password Manager, and other future product offerings could be affected by Microsoft's licensing and pricing scheme for client devices, servers and applications. Further, the announcement of the release, and the actual release, of new Windows-based server operating systems or products incorporating similar features to our products could cause our existing and potential customers to postpone or cancel plans to license certain of our existing and future product offerings.

In addition, alternative products for secure, remote access in the Internet software and hardware markets directly and indirectly compete with our current Citrix MetaFrame Access Suite products and our Web-based desk-top access products, including GoToAssist, GoToMyPC and GoToMeeting 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 our ability to sell our products in this market. Our current competitors in this market include Microsoft, Oracle, Sun Microsystems, Cisco, Webex, Symantec, and other makers of secure remote access solutions.

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

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

We have a significant amount of goodwill and other intangible assets, such as product and core technology, related to our acquisition of Sequoia Software Corporation in 2001 and Expertcity in 2004. In July 2001, we adopted SFAS No. 141, *Business Combinations*, and in January 2002, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. As a result, we no longer amortize goodwill and intangible assets that are deemed to have indefinite lives. However, we continue to amortize certain product and core technologies, trademarks, patents and other intangibles. We periodically evaluate our intangible assets, including goodwill, for impairment. As of March 31, 2004 we had \$313.6 million of goodwill. We review for impairment annually, or sooner if events or changes in circumstances indicate that the carrying amount could exceed fair value. Fair values are based on discounted cash flows using a discount rate determined by our management to be consistent with industry discount rates and the risks inherent in our current business model. Due to uncertain market conditions and potential changes in our strategy and product portfolio, it is possible that the forecasts we use to support our goodwill could change in the future, which could result in non-cash charges that would adversely affect our results of operations and financial condition.

At March 31, 2004, we had \$68.4 million, net, of unamortized identified intangibles with estimable useful lives, of which \$12.5 million consists of product and core technology we purchased in the acquisition of Sequoia, \$25.0 million relates to product and core technology purchased in the Expertcity acquisition and \$4.2 million represents core technology purchased under third party licenses. We have commercialized and currently market the Sequoia and other license technology through our secure access infrastructure software, which includes Citrix MetaFrame Secure Access Manager and Citrix MetaFrame Password Manager. However, our channel distributors and entities with which we have technology relationships, customers or prospective customers may not purchase or widely accept our new line of products. If we fail to complete the development of our anticipated future product offerings, if we fail to complete them in a timely manner, or if we are unsuccessful in selling these new products, we could determine that the value of the purchased technology is impaired in whole or in part and take a charge to earnings. We could also incur additional charges in later periods to reflect costs associated with completing those projects that could not be completed in a timely manner. If the actual revenues and operating profit attributable to acquired product and core technologies are less than the projections we

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used to initially value product and core technologies when we acquired it, such intangible assets may be deemed to be impaired. If we determine that any of our intangible assets are impaired, we would be required to take a related charge to earnings that could have a material adverse effect on our results of operations.

We recorded approximately \$212 million of goodwill and intangible assets in connection with our acquisition of Expertcity. If the actual revenues and operating profit attributable to acquired intangible assets are less than the projections we used to initially value these intangible assets when we acquired them, then these intangible assets may be deemed to be

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impaired. If we determine that any of the goodwill or other intangible assets associated with our acquisition of Expertcity are impaired, then we would be required to reduce the value of those assets or to write them off completely by taking a related charge to earnings. If we are required to write down or write off all or a portion of those assets, or if financial analysts or investors believe we may need to take such action in the future, our stock price and operating results could be materially adversely affected.

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

Our growth is dependent upon market growth, our ability to enhance existing products, and our ability to introduce new products on a timely basis. We intend to continue to address the need to develop new products and enhance existing products through acquisitions of other companies, product lines and/or technologies.

Acquisitions, including those of high-technology companies, are inherently risky. We cannot assure anyone that our previous acquisitions, or any future acquisitions will be successful in helping us reach our financial and strategic goals either for that acquisition or for us generally. The risks we commonly encounter are:

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

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

the risk of diverting management's attention from normal daily operations of the business;

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

risks of entering markets in which we have no or limited direct prior experience and where competitors have stronger market positions;

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

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

These factors could have a material adverse effect on our business, results of operations and financial condition. We cannot guarantee that the combined company resulting from any acquisition can continue to support the growth achieved by the companies separately. We must also focus on our ability to manage and integrate any acquisition. Our failure to manage growth effectively and successfully integrate acquired companies could adversely affect our business and operating results.

The anticipated benefits to us of acquiring Expertcity may not be realized.

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We acquired Expertcity with the expectation that the acquisition would result in various benefits including, among other things, enhanced revenue and profits, greater market presence and development, and enhancements to our product portfolio and customer base. We expect that the acquisition will enhance our position in the access infrastructure market through the combination of our technologies, products, services, distribution channels and customer contacts with Expertcity's, and will enable us to broaden our customer base to include individuals, professionals and small office/home office customers as well as extend our presence in the enterprise access infrastructure market. We may not realize any of these benefits and the acquisition may result in the deterioration or loss of significant business. For example, if our business or Expertcity's business fails to meet the demands of the marketplace, customer acceptance of the products and services of the combined companies could decline, which could have a material adverse effect on our results of operations and financial condition. Costs incurred and potential liabilities assumed in connection with the acquisition also could have an adverse effect on our business, financial condition and operating results.

Achieving the expected benefits of the acquisition will depend in part on the integration of Expertcity's and our businesses in a timely and efficient manner. The challenges involved in this integration include difficulties integrating Expertcity's operations, technologies and products as well as coordinating the efforts of Expertcity's sales organization with our larger and more widely dispersed sales organization. The integration of the two businesses could be complex, time consuming and expensive, may disrupt business and may result in the loss of customers or key employees or the diversion of the attention of management which could have an adverse effect on our business, financial condition and operating results.

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In addition, we may not achieve the anticipated benefits of the acquisition as rapidly as, or to the extent, anticipated by our management and certain financial or industry analysts, or other analysts may not perceive the same benefits of the acquisition as we do. For example, Expertcity's uncertain sales and earnings stream could dilute our profits beyond the current expectations of our management. If these risks materialize, our stock price could be materially adversely affected.

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

Historically, the scope of our operations, the number of our employees and the geographic area of our operations have grown rapidly. In addition, we have acquired both domestic and international companies. This growth and the assimilation of acquired operations and their employees could continue to place a significant strain on our managerial, operational and financial resources. To manage our growth, if any, effectively, we need to continue to implement and improve additional management and financial systems and controls. We may not be able to manage the current scope of our operations or future growth effectively and still exploit market opportunities for our products and services in a timely and cost-effective way. Our future operating results could also depend on our ability to manage:

our expanding product line,

our marketing and sales organizations, and

our client support organization as installations of our products increase.

In 2004 our operating expenses will exceed our operating expenses in 2003. An increase in operating expenses could reduce our income from operations and cash flows from operating activities in the future.

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

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

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

We conduct significant sales and customer support operations in countries outside of the United States. For the three months ended March 31, 2004, we derived approximately 56% of our revenues from sales outside the United States. Our continued growth and profitability could require

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us to further expand our international operations. To successfully expand international sales, we must establish additional foreign operations, hire additional personnel and recruit additional international resellers. Our international operations are subject to a variety of risks, which could cause international revenues to fluctuate. These risks include:

fluctuations in foreign currency exchange rates, including our ability to adequately hedge our foreign exchange risks;

compliance with foreign regulatory and market requirements;

variability of foreign economic, political and labor conditions;

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

longer accounts receivable payment cycles;

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potentially adverse tax consequences;

difficulties in protecting intellectual property; and

burdens of complying with a wide variety of foreign laws.

Our success depends, in part, on our ability to anticipate and address these risks. We cannot guarantee that these or other factors will not adversely affect our business or operating results. Further, as we generate cash flow in non-U.S. jurisdictions, if required, we may experience difficulty transferring such funds to the U.S. in a tax efficient manner. In particular, a decrease in demand for software and services in any particular region could adversely affect our future operating results.

Our results of operations are subject to fluctuations in foreign currency exchange rates. In order to minimize adverse impacts on our operating results, we generally initiate our hedging of currency exchange risks one year in advance of anticipated foreign currency expenses. As a result of this policy, foreign currency denominated expenses will be higher or lower in the current year depending on the weakness or strength of the dollar in the prior year. Since the dollar was generally weak in 2003, particularly against Euro and British pound sterling, we currently expect that operating expenses will be higher in 2004 but further dollar weakness in 2004 will not have a further material impact on our operating expenses until 2005.

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

In April 2002, we entered into a seven-year synthetic lease with a lessor for our headquarters office buildings in Fort Lauderdale, Florida. The synthetic lease qualifies for operating lease accounting treatment under SFAS No. 13, Accounting for Leases, so we do not include the property or the lease debt on our consolidated balance sheet. In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*, which addresses the consolidation of variable interest entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. In December 2003, the FASB issued FIN No. 46 (revised), which replaced FIN No. 46. FIN No. 46 (revised) is effective immediately for certain disclosure requirements and variable interest entities referred to as special-purpose entities for periods ending after December 15, 2003 and for other types of entities for financial statements for periods ending after March 15, 2004. We have determined that we are not required to consolidate the lessor entity, the leased facility or the related debt upon the adoption of FIN No. 46, as amended. Accordingly, there was no impact on our financial position, results of operations or cash flows from adoption. However, if the lessor were to change its ownership of our property or significantly change its ownership of other properties that it currently holds, we could be required to consolidate the entity, the leased facility and the debt in a future period.

If we elect not to purchase the property at the end of the lease term, we have guaranteed a minimum residual value of approximately \$51.9 million to the lessor. Therefore, if the fair value of the property declines below \$51.9 million, we would have to make up the difference under our residual value guarantee, which could have a material adverse effect on our results of operations and financial condition. For further information on our synthetic lease, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Commitments and note 13 to our condensed consolidated financial statements.

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

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

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

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

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

We are subject to risks associated with our technology relationships.

Our business depends on technology relationships. We cannot assure you that those relationships will continue in the future. In addition to our relationship with Microsoft, we rely on technology relationships with such companies as IBM, HP, Dell and others. We depend on the entities with which we have technology relationships to successfully test our products, to incorporate our technology into their products and to market and sell those products. We cannot assure you that we will be able to maintain our current technology relationships or to develop additional technology relationships. If any entities in which we have a technology relationship are unable to incorporate our technology into their products or to market or sell those products, our business, operating results and financial condition could be materially adversely affected.

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

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

undetected errors or unauthorized use of another person's code in the third party's software;

disagreement over the scope of the license and other key terms, such as royalties payable; and

infringement actions brought by third party licensees;

termination or expiration of the license.

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

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

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

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

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

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

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

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

We rely significantly on independent distributors and resellers to market and distribute our products. We do not control our distributors and resellers. Additionally, our distributors and resellers are not obligated to buy our products and could also represent other lines of products. Some of our distributors and resellers maintain inventories of our packaged products for resale to smaller end-users. If distributors and resellers reduce their inventory of our packaged products, our business could be adversely affected. During 2003 we believe that our distributors and resellers held smaller inventories of packaged products as compared to inventories they held in prior years. Further, we could maintain individually significant accounts receivable balances with certain distributors. The financial condition of our distributors could deteriorate and distributors could significantly delay or default on their payment obligations. Any significant delays or defaults could have a material adverse effect on our business, results of operations and financial condition.

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

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

The market for our Web-based training and customer assistance products is volatile, and if it does not develop or develops more slowly than we expect, our Citrix Online Division will be harmed.

The market for our Web-based training and customer assistance products is new and unproven, and it is uncertain whether these services will achieve and sustain high levels of demand and market acceptance. Our success with our Citrix Online Division will depend to a substantial extent on the willingness of enterprises, large and small, to increase their use of application services in general and for GoToMyPC and GoToAssist, in particular. Many enterprises have invested substantial personnel and financial resources to integrate traditional enterprise software into their businesses, and therefore may be reluctant or unwilling to migrate to application services. Furthermore, some enterprises may be reluctant or unwilling to use application services because they have concerns regarding the risks

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associated with security capabilities, among other things, of the technology delivery model associated with these services. If enterprises do not perceive the benefits of application services, then the market for these services may not further develop at all, or it may develop more slowly than we expect, either of which would significantly adversely affect our financial condition and the operating results for our Citrix Online Division.

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

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

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

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

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

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

cannot add the necessary staff and resources, our ability to develop future enhancements and features to our existing or future products could be delayed. Any delays could have a material adverse effect on our business, results of operations and financial condition.

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

We provide most of our distributors with stock balancing return rights, which generally permit our distributors to return products to us up to the forty-fifth day of the fiscal quarter, subject to ordering an equal dollar amount of our products prior to the last day of the same fiscal quarter. We also provide price protection rights to most of our distributors. Price protection rights require that we grant retroactive price adjustments for inventories of our products held by distributors if we lower our prices for those products within a specified time period. To cover our exposure to these

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product returns and price adjustments, we establish reserves based on our evaluation of historical product trends and current marketing plans. However, we cannot assure you that our reserves will be sufficient to cover our future product returns and price adjustments. If we inadequately forecast reserves, our operating results could be adversely affected.

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

Our stock price has been volatile and has fluctuated significantly to date. The trading price of our stock is likely to continue to be highly volatile and subject to wide fluctuations. Your investment in our stock could lose value. Some of the factors that could significantly affect the market price of our stock include:

actual or anticipated variations in operating and financial results;

analyst reports or recommendations;

changes in interest rates; and

other events or factors, many of which are beyond our control.

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

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

General economic and market conditions, and other factors outside our control, could adversely affect our business and impair the value of our investments. Any further downturn in general economic conditions could result in a reduction in demand for our products and services and could harm our business. In addition, an economic downturn could result in an impairment in the value of our investments requiring us to record losses related to such investments. Impairment in the value of these investments may disrupt our ongoing business and distract management. As of March 31, 2004, we had \$383.3 million of short and long-term investments, including restricted investments, with various issuers and financial institutions. In many cases we do not attempt to reduce or eliminate our market exposure on these investments and could incur losses related to the impairment of these investments. Fluctuations in economic and market conditions could adversely affect the value of our investments, and we could lose some of our investment portfolio. A total loss of an investment could adversely affect our results of operations and financial condition. For further information on these investments, please refer to Liquidity and Capital Resources.

Our revenue may not grow, and if we do not continue to successfully manage our expenses, our business could be negatively impacted.

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We attribute most of our growth during recent years to the introduction of the MetaFrame software for Windows operating systems in mid-1998. We cannot assure you that the access infrastructure software markets, in which we operate, will grow. We cannot assure you that the release of our access infrastructure software suite of products or other new products will increase our revenue growth rate.

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

Political and social turmoil could adversely impact our business.

Political and social turmoil, including terrorist and military actions, can be expected to put further pressure on economic conditions in the United States and foreign jurisdictions. These conditions make it difficult for us, and our customers, to accurately forecast and plan future business activities and could have a material adverse effect on our business, financial condition and results of operations.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes with respect to the information on Quantitative and Qualitative Disclosures About Market Risk appearing in Part II, Item 7A to the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

ITEM 4. CONTROLS AND PROCEDURES

As of March 31, 2004, the Company's management, with the participation of the Company's Chief Executive Officer and the Company's Vice President and Chief Financial Officer, evaluated the effectiveness of the Company's 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, the Company's Chief Executive Officer and the Company's Vice President and Chief Financial Officer concluded that, as of March 31, 2004, the Company's disclosure controls and procedures were effective in ensuring that material information required to be disclosed by the Company in the reports that it files or submits 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 and communicated to the Company's management, including the Company's Chief Executive Officer and the Company's Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. During the period covered by this report, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

On March 7, 2005, the Company announced that it was restating its consolidated balance sheets and statements of cash flows for fiscal years 2003 and 2002 and for the first three quarters of 2004 to correct the presentation of cash and investments on the Company's balance sheet. Previously, the Company presented collateral pledged under the Company's synthetic lease arrangement, credit default contracts and interest rate swaps in cash equivalents, short-term investments and long-term investments. As a result of a normal periodic review of the financial reports of the Company by the staff of the Securities and Exchange Commission, the Company concluded that such pledged collateral should be presented as restricted cash equivalents and investments. In the fourth quarter of 2004, the Company corrected the presentation of cash and investments on its balance sheet. The Company has reflected such correction in its restated condensed consolidated balance sheets as of March 31, 2004 and December 31, 2003 and its condensed consolidated statements of cash flows for the three months ended March 31, 2004 and 2003 presented in this amended Quarterly Report on Form 10-Q/A. Please refer to Note 1 to the accompanying condensed consolidated financial statements for additional information.

As a result of the restatement of its consolidated balance sheets and statements of cash flows, the Company determined that there was a significant deficiency in its internal control over financial reporting as of March 31, 2004 related to the presentation on its balance sheet of collateral pledged under the Company's synthetic lease arrangement, credit default contracts and interest rate swaps. The Company determined that such significant deficiency did not rise to the level of a material weakness in its internal control over financial reporting. Because the Company corrected its presentation of cash and investments in the fourth quarter of 2004 the Company believes that it corrected this significant deficiency.

Table of Contents**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

The Company is a defendant in various matters of litigation 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 financial position, result of operations or cash flows.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES**Issuer Purchases of Equity Securities**

In April 1999, the Company's board of directors authorized an ongoing stock repurchase program with an initial authority of \$200 million. During 2003, the Company's board of directors authorized the repurchase of an additional \$200 million under its stock repurchase program, increasing the total authority to \$800 million, the objective of which is to manage actual and anticipated dilution. At March 31, 2004, approximately \$163.9 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock.

	(a)	(b)	(c)	(d)
	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per Share	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar value) of Shares (or Units) that may yet be Purchased under the Plans or Programs
January 1, 2004 through January 31, 2004	236,568	N/A (2)	236,568	\$ 163,857
February 1, 2004 through February 29, 2004	473,401	N/A (2)	473,401	\$ 163,857
March 1, 2004 through March 31, 2004				\$ 163,857
Total	709,969	\$ 20.96(2)	709,969	\$ 163,857

(1) Represents shares received under the Company's prepaid stock repurchase programs. No cash was expended during the current period for repurchases of the Company's common stock. For more information see Note 11 to the Company's condensed consolidated financial statements.

(2) At March 31, 2004, this amount represents the cumulative average price paid per share for shares received under the Company's prepaid stock repurchase programs some of which extend over more than one fiscal period.

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On March 22, 2004, the Company redeemed all of its outstanding zero coupon convertible subordinated debentures for a redemption price of approximately \$355.7 million. The debentures were convertible at the option of the security holder at any time on or before the maturity date at a conversion rate of 14.0612 shares of the Company's common stock for each \$1,000 principal amount at maturity of debentures.

On February 27, 2004, the Company completed an acquisition of Expertcity.com, Inc., a privately-held company. The purchase was completed in part through the issuance of approximately 5.6 million shares of the Company's common stock valued at approximately \$118.0 million. Furthermore, up to approximately 0.6 million shares of the Company's common stock may be issued to Expertcity's stockholders in the event that certain revenue and other financial milestones are achieved by the Expertcity business in 2004. The issuance of shares in this transaction was made in reliance of an exemption from registration under the Securities Act of 1933, pursuant to Section 3(a)(10) of that act. The Company relied on a public fairness hearing conducted before the Department of Corporations of the State of California pursuant to Section 25142 of the California Corporate Securities Law, resulting in the Company obtaining a permit dated February 24, 2004 to issue the shares of the Company's common stock.

Table of Contents**ITEM 5. OTHER INFORMATION**

The Company's policy governing transactions in its securities by its directors, officers and employees permits its officers, directors and employees to enter into trading plans in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. The Company has been advised that each of the following executive officers has entered into a trading plan during April 2004 in accordance with Rule 10b5-1 and the Company's policy governing transactions in its securities: John C. Burris, Senior Vice President, Worldwide Sales and Customer Services, David R. Friedman, Vice President and General Counsel, David J. Henshall, Vice President and Chief Financial Officer, Jeanne Moreno, Senior Vice President, Corporate Services and Chief Information Officer, and David Urbani, Vice President, Finance and Corporate Controller. The Company undertakes no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) List of exhibits

<u>Exhibit No.</u>	<u>Description</u>
31.1	Rule 13a-14(a) / 15d-14(a) Certification
31.2	Rule 13a-14(a) / 15d-14(a) Certification
32.1	Certifications pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- (b) On January 21, 2004, the Company furnished a report on Form 8-K to the Securities and Exchange Commission. That report on Form 8-K, furnished pursuant to Item 12 of that form, stated that, on January 21, 2004, the Company reported its earnings for the fiscal year ended December 31, 2003.

On February 19, 2004, the Company furnished a report on Form 8-K to the Securities and Exchange Commission. That report on Form 8-K, furnished pursuant to Item 9 of that form, stated that, the Company will call for redemption all of its outstanding Zero Coupon Convertible Subordinated Debentures Due 2019.

On March 1, 2004, the Company furnished a report on Form 8-K to the Securities and Exchange Commission. That report on Form 8-K, furnished pursuant to Item 9 of that form, stated that, on March 1, 2004, the Company completed its acquisition of Expertcity.com, Inc.

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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 7th day of March 2005.

CITRIX SYSTEMS, INC.

By: /s/ DAVID J. HENSHALL

David J. Henshall
Vice President and Chief Financial Officer
(Authorized Officer and Principal Financial Officer)

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EXHIBIT INDEX

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