

Trina Solar LTD  
Form 6-K  
May 21, 2007  
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## FORM 6-K

# SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

### REPORT OF FOREIGN ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF THE

SECURITIES EXCHANGE ACT OF 1934

For the month of May 2007

Commission File Number: 001-33195

## TRINA SOLAR LIMITED

No. 2 Xin Yuan Yi Road

Electronics Park, New District

Changzhou, Jiangsu 213031

People's Republic of China

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

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Yes  No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

82- N/A

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TRINA SOLAR LIMITED

Form 6-K

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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.

TRINA SOLAR LIMITED

By: /s/ Jifan Gao

Name: Jifan Gao

Title: Chairman and Chief Executive Officer

Date: May 21, 2007

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**Exhibit 99.1**

***For Immediate Release***

Contact:

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**Trina Solar Limited Announces First Quarter 2007 End Results**

Changzhou, China May 21, 2007 Trina Solar Limited (NYSE: TSL) ( Trina Solar ), an integrated manufacturer of solar PV products based in Changzhou, China, today announced its unaudited financial results for the first quarter ended March 31, 2007.

**First Quarter 2007 Highlights**

Total net revenues increased 9.8% sequentially and 194.4% year-over-year to \$42.5 million

Gross profit increased 5.3% sequentially and 107.7% year-over-year to \$9.5 million

Net income from continuing operations increased 7.3% sequentially and 62.6% year-over-year to \$4.7 million

Shipped 10.52 MW of solar modules, up from 8.98 MW in the fourth quarter of 2006 and from 3.34 MW in the first quarter of 2006

Entered into long-term polysilicon supply agreements with Wacker AG and DC Chemical

Upgraded power supply in order to support planned production capacity expansion

**First Quarter 2007 Results**

This was a productive quarter for Trina Solar. We achieved strong revenue growth and profitability, despite the fact that Q1 is one of the slowest quarters of the year due to seasonality. In addition, we successfully achieved several key milestones of our business plan including testing our solar cell manufacturing lines, said Mr. Jifan Gao, Chairman and CEO of Trina Solar Limited. As expected, we saw some margin compression mainly due to a decline in selling prices. However, demand remained strong with shipments increasing 17.1% from the fourth quarter of last year.

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Trina Solar's net revenues in the first quarter of 2007 were \$42.5 million, an increase of 9.8% sequentially and 194.4% year-over-year. Total shipments increased to 10.52 MW, up from 8.98 MW in the fourth quarter of 2006 and 3.34 MW in the first quarter of 2006. Average sales price (ASP) was \$3.80 in the first quarter of 2007, compared to \$3.86 in the fourth quarter of 2006, and \$4.03 in the first quarter of 2006. Sales to customers in Europe continued to generate almost all of the total net revenues in the first quarter of 2007.

At quarter end, the annualized capacity was 100 MW for ingot and wafer production, respectively. In April 2007 the company commenced production of its newly installed solar PV cell line with the current average cell efficiency of 16.3%. The new production lines have an annual manufacturing capacity of approximately 50 MW. The company plans to increase its annual manufacturing capacity to 150 MW for each of ingots, wafer, cells and module production by the end of 2007.

Cost of revenues in the first quarter of 2007 were \$33.0 million, an increase of 11.1% sequentially and 234.6% year-over-year due to growth of its solar module business and increases in the price of silicon raw materials. Cost of revenues in the first quarter of 2007 included \$15,000 in share-based compensation expenses.

Gross profit in the first quarter of 2007 was \$9.5 million, an increase of 5.3% from the fourth quarter of 2006, up 107.7% year-over-year. Gross margin was 22.3% in the first quarter of 2007, a decrease from 23.3% in the fourth quarter of 2006 and 31.7% in the first quarter of 2006. The sequential decline in gross margin was due to lower ASP, while the year-over-year decline in gross margin was mainly due to lower ASP and increased cost of silicon raw materials.

Operating expenses in the first quarter of 2007 were \$5.0 million, representing increases of 59.1% sequentially and 386.0% year-over-year. The sequential and year-over-year increases were primarily due to \$0.5 million in research and development expenses associated with testing the company's newly installed solar PV cell line as well as higher selling expenses and general and administrative expenses to support the rapid growth of the business. Operating Expenses in the first quarter of 2007 also included \$296,000 of share-based compensation expenses.

Operating income in the first quarter of 2007 was \$4.5 million, down 23.7% sequentially and up 26.2% year-over-year. Operating margin was 10.5% in the first quarter of 2007, compared to 15.1% in the fourth quarter of 2006 and 24.5% in the first quarter of 2006.

Interest expense was \$1.2 million in the first quarter of 2007, compared to \$1.1 million in the fourth quarter of 2006 and \$0.2 million in the first quarter of 2006. The sequential increase was due to an increase in the average balance of short-term borrowings in the first quarter of 2007 compared to the fourth quarter of 2006.

Our income tax benefit in the first quarter of 2007 was related to the income tax exemption granted in this quarter on a portion of our taxable income related to the additional injection of registered capital of our PRC subsidiary in 2006.

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Net income from continuing operation was \$4.7 million in the first quarter of 2007, up 7.3% sequentially and 62.6% year-over-year.

Net income was \$4.8 million in the first quarter of 2007, up 3.7% sequentially and 67.5% year-over-year.

Earnings per fully diluted ADS were \$0.223 in the first quarter of 2007, compared to \$0.276 in the fourth quarter of 2006 and \$0.284 in the first quarter of 2006.

## **Financial Condition**

As of March 31, 2007, the company had \$28.6 million in cash and cash equivalents and working capital of \$110.4 million. Total bank borrowings stood at \$ 74.1 million, of which \$5.2 million were long-term borrowings. Shareholders' equity was \$171.6 million, up from \$157.2 million at 2006 year end.

## **Future Outlook**

The company affirms its previous guidance of total net revenues in the range of \$270 million to \$300 million and net income in the range of \$34.5 million to \$36.5 million for the full year 2007. The company expects to ship between 75 MW to 80 MW of modules for the full year 2007.

The company would like to confirm its strong position in terms of polysilicon supply, having signed contracts for 90% and 60% of its 2007 and 2008 feedstock requirements, respectively. This supply has been secured through short and medium term contracts from polysilicon manufacturers, semiconductor companies, and silicon reclamation companies.

Our outlook remains positive. As we enter the period of strong seasonal demand, we anticipate significant growth in revenues. Now that our new solar cell line has commenced production, we are one step closer to completing our highly vertically integrated business model. Our focus now is to achieve cell efficiencies in excess of 16.5% by year end, which will enhance our product quality and improve our cost structure, stated Mr. Gao. Our efforts to expand our geographic footprint into new markets and diversify our customer base have been successful, and we signed a number of contracts with new customers in Spain and Italy during the quarter. Going forward, our sales force will continue to target large- and medium-sized companies in these and other markets.

## **Recent Events**

On March 23, 2007, the company announced the appointment of Mr. Sean Tzou as Trina Solar's Chief Operating Officer. Mr. Tzou will report directly to Mr. Jifan Gao, Trina Solar's Chairman and Chief Executive Officer, and will be in charge of the company's overall operations. Mr. Tzou has brought to Trina Solar more than twenty years of experience in product development, strategic planning, supply chain management and operations management both in China and the US.

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On April 2, 2007, the company announced the successful commercial launch of its newly installed solar PV cell lines. The 50 MW cell lines had been under testing during the first quarter of 2007 with positive initial trials. After further fine tuning, the production of solar PV cells started successfully as planned on April 2 with average cell efficiency of 16.3%. The launch of the Company's cell lines in April is an important milestone for the Company towards vertical integration of its manufacturing processes. This vertically integrated strategy is expected to allow Trina Solar to reduce cost, improve product quality and become a leader in the solar PV industry.

Earlier this month the company progressed towards some of its previously stated sales and marketing objectives by signing several agreements with well-recognized companies in target PV markets of Spain and Italy. One of the contracts represents a commitment to supply a range of 80 to 150 MW to Ibersolar of Spain from 2007 to 2010. These new contracts are in line with the company's goals of increasing its market presence in Europe outside of Germany and building a brand as one of the top global solar PV companies.

## **Conference Call**

The company will host a conference call at 8:00 a.m. ET on Monday, May 21, 2007, to discuss the results for the quarter ended March 31, 2007. Joining Jifan Gao, Trina Solar's Chairman and Chief Executive Officer, will be Sean Shao, Chief Financial Officer, and Andy Klump, Director of Business Development. To participate in the conference call, please dial the following number five to ten minutes prior to the scheduled conference call time: (888) 482-0024. International callers should dial (617) 801-9702. The passcode for the call is 39341670.

The Q&A session of the call has been cancelled due to fact the company has filed a registration statement with the U.S. Securities and Exchange Commission in connection with a follow-on offering of American depository shares.

If you are unable to participate in the call at this time, a replay will be available on Monday, May 21 at 10:00 a.m. ET, through Monday, May 28 at 10:00 a.m. ET. To access the replay, dial (888) 286-8010 and enter the passcode 48079110. This conference call will be broadcast live over the Internet and can be accessed by all interested parties on Trina Solar's website at <http://www.trinasolar.com>. To listen to the live webcast, please go to Trina Solar's website at least fifteen minutes prior to the start of the call to register, download, and install any necessary audio software. For those unable to participate during the live broadcast, a replay will be available shortly after the call on Trina Solar's website for 90 days.

## **About Trina Solar Limited**

Trina Solar Limited (NYSE: TSL), through its wholly-owned subsidiary Changzhou Trina Solar Energy Co., Ltd., is an integrated solar PV manufacturer based in China. The company began research and development efforts in solar products in 1999 and in 2002 it started the system integration business. The company moved into the assembly of solar modules in 2004 as well as the manufacturing of monocrystalline ingots, wafers and cells in 2005, 2006, and 2007, respectively. The company's solar modules provide reliable and



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environmentally-friendly electric power for residential, commercial, industrial and other applications worldwide. The company sells its products to customers around the globe, including a number of European countries, such as Germany, Spain and Italy, where government incentives have accelerated the adoption of solar power. For further information, visit the company's website at <http://www.trinasolar.com>.

*Safe Harbor Statement*

*This announcement contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact in this announcement are forward-looking statements, including but not limited to, the company's ability to raise additional capital to finance the company's activities; the effectiveness, profitability, and marketability of its products; the future trading of the securities of the company; the ability of the company to operate as a public company; the period of time for which its current liquidity will enable the company to fund its operations; the company's ability to protect its proprietary information; general economic and business conditions; the volatility of the company's operating results and financial condition; the company's ability to attract or retain qualified senior management personnel and research and development staff; and other risks detailed in the company's filings with the Securities and Exchange Commission. These forward-looking statements involve known and unknown risks and uncertainties and are based on current expectations, assumptions, estimates and projections about the companies and the industry. The company undertakes no obligation to update forward-looking statements to reflect subsequent occurring events or circumstances, or to changes in its expectations, except as may be required by law. Although the company believes that the expectations expressed in these forward looking statements are reasonable, they cannot assure you that their expectations will turn out to be correct, and investors are cautioned that actual results may differ materially from the anticipated results.*

- FINANCIAL TABLES FOLLOW -

**Table of Contents****Trina Solar Limited****Consolidated Statement of Operations**

(US dollars in thousands, except ADS and share data)

	<b>For the three months ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Net revenues	\$ 42,548	\$ 14,452
Cost of revenues	33,040	9,875
Gross profit	9,508	4,577
Operating expenses		
Selling expenses	1,593	379
General and administrative expenses	2,671	582
Research and development expenses	776	76
Total operating expenses	5,040	1,037
Operating income	4,468	3,540
Interest expenses	(1,202)	(189)
Interest income	392	7
Other income (expenses)	(110)	(26)
Income before income taxes	3,548	3,332
Income tax expenses	1,158	(438)
Net income from continuing operations	4,706	2,894
Net income (loss) from discontinued operations	49	(56)
Net income	\$ 4,755	\$ 2,838
Earnings per ordinary share from continuing operations		
Basic	0.002	0.003
Diluted	0.002	0.003
Earnings per ADS from continuing operations		
Basic	0.222	0.289
Diluted	0.221	0.289
Earnings per ordinary share		
Basic	0.002	0.003
Diluted	0.002	0.003
Earnings per ADS		
Basic	0.225	0.284
Diluted	0.223	0.284
Weighted average ordinary shares outstanding		
Basic	2,116,518,294	1,000,000,000
Diluted	2,131,218,837	1,000,000,000
Weighted average ADS outstanding		
Basic	21,165,183	10,000,000
Diluted	21,312,188	10,000,000

**Table of Contents****Trina Solar Limited****Consolidated Balance Sheet**

(US dollars in thousands)

	March 31, 2007 (unaudited)	December 31 2006 (audited)
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 28,582	\$ 93,380
Restricted cash	6,488	5,004
Inventories	51,740	32,230
Accounts receivable, net	42,039	29,353
Other receivables	3,895	1,228
Advances to suppliers	61,969	34,606
Value-added tax recoverable	1,218	1,035
Deferred tax assets	85	613
Current assets of discontinued operations	266	353
Total current assets	196,282	197,802
Property, plant and equipment	65,415	51,419
Intangible assets, net	2,383	2,372
Deferred tax assets	452	152
<b>TOTAL ASSETS</b>	<b>\$ 264,532</b>	<b>\$ 251,745</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Short-term borrowings, including current portion of long-term debt	\$ 68,915	\$ 71,409
Accounts payable	11,320	9,147
Accrued expenses	4,449	5,029
Advances from customers	722	1,200
Income tax payable	135	850
Current liabilities to be disposed	382	434
Total current liabilities	85,923	88,069
Long-term bank borrowings	5,172	5,122
Accrued warranty costs	1,808	1,400
Total liabilities	92,903	94,591
Ordinary shares	22	21
Additional paid-in capital	148,760	139,671
Retained earnings	20,377	15,622
Other comprehensive income	2,470	1,840
Total shareholders equity	171,629	157,154
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 264,532</b>	<b>\$ 251,745</b>

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**Exhibit 99.2**

***For Immediate Release***

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**Trina Solar Limited Appoints New Independent Director**

Changzhou, China May 21, 2007 Trina Solar Limited (NYSE: TSL) ( Trina Solar or the Company ), an integrated manufacturer of solar PV products based in Changzhou, China, today announced that it appointed Mr. Qian Zhao to the Company's board of directors (the Board ) at a meeting of the Board held on May 18, 2007. Mr. Zhao's appointment fills the vacancy arisen from Mr. Canfang Liu's resignation from the Board.

Regarding Mr. Canfang Liu's departure, Mr. Jifan Gao, Trina Solar's Chairman and Chief Executive Officer, said, "We are deeply grateful for the guidance and dedication that Mr. Liu has brought to the Company.

Mr. Zhao is a lawyer by training and has practiced law for 17 years specializing in corporate finance, cross-border investments, securities and M&A. Mr. Zhao co-founded Haiwen & Partners, a preeminent PRC corporate finance law firm in Beijing, and was a senior partner there from 1992 to 1994 and 2004 to 2005. He was with Sullivan & Cromwell in New York from 1996 to 2000, and Skadden, Arps in Beijing from 2000 to 2003. Mr. Zhao currently works with investors in making private equity investments in China-based companies and is the acting COO of GuangCai 49 Holding Co., Ltd., an investment company co-founded by some of China's leading private entrepreneurs.

"We are very pleased to be adding someone of Mr. Zhao's stature and experience to Trina Solar's board," said Mr. Gao. "Mr. Zhao's depth of legal and transaction experience will be invaluable to our company.

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**About Trina Solar Limited:**

Trina Solar is a well recognized manufacturer of high quality monocrystalline modules and has a long history as a solar PV pioneer since it was founded in 1997 as a system installation company in China. Trina Solar is currently one of the few PV manufactures that has developed a vertically integrated business model from the production of monocrystalline ingots, wafers and cells to the assembly of high quality modules. This integrated value chain helps to ensure that high quality products can be delivered to its end customers around the globe, including those in European countries, such as Germany, Spain and Italy. The company's solar modules provide reliable and environmentally-friendly electric power for residential, commercial, industrial and other applications worldwide. Trina Solar successfully completed its initial public offering in December 2006 and its ADSs are traded on the New York Stock Exchange under the ticker symbol TSL. For further information, please visit the company's website at <http://www.trinasolar.com>.

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occur periodically, could materially impact our consolidated financial statements. We have discussed the development, selection and application of our critical accounting policies with the Audit Committee of our Board of Directors and our independent auditors, and our Audit Committee has reviewed our disclosure relating to our critical accounting policies and estimates in this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Note 2 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended

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December 31, 2011 describes the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements.

#### Revenue Recognition

We recognize revenue when it is earned and when all of the following criteria are met: persuasive evidence of the arrangement exists; delivery has occurred or the service has been provided and we have no remaining obligations; the fee is fixed or determinable; and collectability is probable. We define these four criteria as follows:

Persuasive evidence of the arrangement exists. We primarily sell our software products via electronic or paper licenses and typically require a purchase order from the distributor, reseller or end-user (depending on the arrangement) who have previously negotiated a master distribution or resale agreement and an executed product license agreement from the end-user. For appliance sales, our customary practice is to require a purchase order from distributors and resellers who have previously negotiated a master packaged product distribution or resale agreement. We typically recognize revenue upon shipment for our appliance sales. For technical support, product training and consulting services, we require a purchase order and an executed agreement. For SaaS, we generally require the customer or the reseller to electronically accept the terms of an online services agreement or execute a contract. Delivery has occurred and we have no remaining obligations. We consider delivery of licenses under electronic licensing agreements to have occurred when the related products are shipped and the end-user has been electronically provided the software activation keys that allow the end-user to take immediate possession of the product. For hardware appliance sales, our standard delivery method is free-on-board shipping point. Consequently, we consider delivery of appliances to have occurred when the products are shipped pursuant to an agreement and purchase order. For SaaS, delivery occurs upon providing the users with their login id and password. For product training and consulting services, we fulfill our obligation when the services are performed. For license updates, technical support and SaaS, we assume that our obligation is 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, we do not provide customers with the right to a refund of any portion of their license fees or extended payment terms. The fees are considered fixed and determinable upon establishment of an arrangement that contains the final terms of the sale including description, quantity and price of each product or service purchased. For SaaS, the fee is considered fixed or determinable if it is not subject to refund or adjustment.

Collectability is probable. We determine collectability on a customer-by-customer basis and generally do not require collateral. We typically sell product licenses and license updates to distributors or resellers for whom there are histories of successful collection. New customers are typically subject to a credit review process that evaluates their financial position and ultimately their ability to pay. Customers are also subject to an ongoing credit review process. If we determine from the outset of an arrangement that collectability 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 an evaluation of customer specific information, historical experience and economic market conditions.

The majority of our product license revenue consists of revenue from the sale of stand-alone software products. Stand-alone software sales generally include a perpetual license to our software and are subject to the industry specific software revenue recognition guidance. In accordance with this guidance, we allocate revenue to license updates related to our stand-alone software 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 revenues, net of any discounts inherent in the arrangement, is recognized at the outset of the arrangement using the residual method as the product licenses are delivered. If management cannot objectively determine the fair value of each undelivered element based on VSOE of fair value, revenue recognition is deferred until all elements are delivered, all services have been performed, or until fair value can be objectively determined. We also make certain judgments to record estimated reductions to revenue for customer programs and incentive offerings including volume-based incentives, at the time sales are recorded.

Our hardware appliances contain software components that are essential to the overall functionality of the products. For hardware appliance transactions entered into prior to January 1, 2011, revenue for arrangements with multiple elements, such as sales of products that included services, was allocated to each element using the residual method

based on the VSOE of the fair value of the undelivered items pursuant to authoritative guidance. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. If VSOE of one or more undelivered items does not exist, revenue from the entire arrangement is deferred and recognized at the earlier of: (i) delivery of those elements or (ii) when fair value can be established unless maintenance is the only undelivered

element, in which case, the entire arrangement fee is recognized ratably over the contractual support period. In October 2009, the Financial Accounting Standards Board, or the FASB, amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for multiple deliverable revenue arrangements to:

- provide updated guidance on how the deliverables in a multiple deliverable arrangement should be separated, and how the consideration should be allocated;
- require an entity to allocate revenue in an arrangement using estimated selling prices, or ESP, of deliverables if a vendor does not have VSOE of selling price or third-party evidence of selling price, or TPE; and
- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

Effective January 1, 2011, we adopted these standards on a prospective basis for new and materially modified arrangements originating after December 31, 2010. The adoption of these standards did not have a material impact on our financial position and results of operations for the year ended December 31, 2011. We do not expect the adoption of these standards to have a material impact on our financial position and results of operations in the future. However, we expect that this amended accounting guidance will facilitate our efforts to optimize our offerings due to better alignment between the economics of an arrangement and the accounting, which, may lead us to engage in new go-to-market practices in the future. In particular, we expect that the amended accounting standards will enable us to better integrate non-software products and services without VSOE into existing offerings and solutions. As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes in selling prices, including both VSOE and ESP.

For new and materially modified multiple element transactions which contain non-software deliverables subsequent to the adoption of the amended revenue recognition standards, the arrangement consideration is allocated to stand-alone software deliverables as a group and the non-software deliverables based on the relative selling prices of using the selling price hierarchy in the amended revenue recognition guidance. The selling price hierarchy for a deliverable is based on its VSOE if available, TPE if VSOE is not available, or estimated selling price if neither VSOE nor TPE is available. We then recognize revenue on each deliverable in accordance with our policies for product and service revenue recognition. VSOE of selling price is based on the price charged when the element is sold separately. In determining VSOE, we require that a substantial majority of the selling prices fall within a reasonable range based on historical discounting trends for specific products and services. TPE of selling price is established by evaluating competitor products or services in stand-alone sales to similarly situated customers. However, as our products contain a significant element of proprietary technology and our solutions offer substantially different features and functionality, the comparable pricing of products with similar functionality typically cannot be obtained. Additionally, as we are unable to reliably determine what competitors products' selling prices are on a stand-alone basis, we are not typically able to determine TPE. The estimate of selling price is established considering multiple factors including, but not limited to, pricing practices in different geographies and through different sales channels and competitor pricing strategies.

For our non-software deliverables we allocate the arrangement consideration based on the relative selling price of the deliverables. For our hardware appliances we use ESP as our selling price. For our support and services, we generally use VSOE as our selling price. When we are unable to establish selling price using VSOE for our support and services, we use ESP in our allocation of arrangement consideration.

Our SaaS is purchased by large enterprises, small and medium-sized businesses, as well as individuals, and are centrally hosted within our datacenters. Our SaaS are considered service arrangements per the authoritative guidance; accordingly, fees related to online service agreements are recognized ratably over the contract term. In addition, SaaS revenues may also include set-up fees, which are recognized ratably over the contract term or the expected customer life, whichever is longer. Generally, our SaaS is sold separately and not bundled with Enterprise division products and services.

Stock-Based Compensation



Under the fair value recognition provisions of the authoritative guidance, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service or performance period, which is the vesting period. We currently use the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, the expected term of the award, the risk-free interest rate and any expected dividends.

For purposes of determining the expected volatility factor, we used the implied volatility in two-year market-traded options on our common stock based on third party volatility quotes in accordance with the provisions of Staff Accounting Bulletin, or SAB, No. 107. Our decision to use implied volatility was based upon the availability of actively traded options on our common stock and our assessment that implied volatility is more representative of future stock price trends than historical volatility. The expected term of our options is based on historical employee exercise patterns. We also analyzed our historical pattern of option exercises based on certain demographic characteristics and we determined that there were no meaningful differences in option exercise activity based on demographic characteristics. The approximate risk free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with remaining terms equivalent to the expected term on our options. We do not intend to pay dividends on our common stock in the foreseeable future and, accordingly, we used a dividend yield of zero in the option pricing model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards that vest based on service, including those with graded vesting schedules, are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods. We issue non-vested stock units with performance goals to certain senior members of management. The number of non-vested stock units underlying each award may be determined based on a range of attainment within defined performance goals. We are required to estimate the attainment that will be achieved related to the defined performance goals and number of non-vested stock units that will ultimately be awarded in order to recognize compensation expense over the vesting period. If our initial estimates of performance goal attainment change, the related expense may fluctuate from quarter to quarter based on those estimates and if the performance goals are not met, no compensation cost will be recognized and any previously recognized compensation cost will be reversed. As of December 31, 2011, there was \$223.1 million of total unrecognized compensation cost related to options and non-vested stock units. That cost is expected to be recognized over a weighted-average period of 2.33 years. If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the stock-based compensation expense we recognize in future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and earnings per share. This may result in a lack of consistency in future periods and materially affect the fair value estimate of stock-based payments. It may also result in a lack of comparability with other companies that use different models, methods and assumptions. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. These characteristics are not present in our option grants. Existing valuation models, including the Black-Scholes and lattice binomial models, may not provide reliable measures of the fair values of our stock-based compensation. Consequently, there is a risk that our estimates of the fair values of our stock-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination or forfeiture of those stock-based payments in the future. Certain stock-based payments, such as employee stock options, may expire with little or no intrinsic value compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, the value realized from these instruments may be significantly higher than the fair values originally estimated on the grant date and reported in our financial statements. There is currently no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values. See Notes 2 and 7 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2011 for further information regarding our adoption of the authoritative guidance for stock-based compensation.

#### Valuation and Classification of Investments

The authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Our available-for-sale investments are measured to fair value on a recurring basis and accordingly are carried at fair value. In addition, we hold investments that are accounted for based on the cost method. These investments are periodically reviewed for impairment and when indicators of impairment exist, are measured to fair value as appropriate on a

non-recurring basis. In determining the fair value of our investments we are sometimes required to use various alternative valuation techniques. The authoritative guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

The authoritative guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: Level 1, observable inputs such as quoted prices in active markets for identical assets or liabilities, Level 2, inputs, other than quoted prices in active markets, that are observable either directly or indirectly, and Level 3, unobservable inputs in which there is little or no market data, which requires us to develop our own assumptions. Observable inputs are those that market participants would use in pricing the asset or liability that are based on market data obtained from independent sources, such as market quoted prices. When Level 1 observable inputs for our investments are not available to determine their

fair value, we must then use other inputs which may include indicative pricing for securities from the same issuer with similar terms, yield curve information, benchmark data, prepayment speeds and credit quality or unobservable inputs that reflect our estimates of the assumptions market participants would use in pricing the investments based on the best information available in the circumstances. When valuation techniques, other than those described as Level 1 are utilized, management must make estimations and judgments in determining the fair value for its investments. The degree to which management's estimation and judgment is required is generally dependent upon the market pricing available for the investments, the availability of observable inputs, the frequency of trading in the investments and the investment's complexity. If we make different judgments regarding unobservable inputs we could potentially reach different conclusions regarding the fair value of our investments.

After we have determined the fair value of our investments, for those that are in an unrealized loss position, we must then determine if the investment is other-than-temporarily impaired. We review our investments quarterly for indicators of other-than-temporary impairment. This determination requires significant judgment and if different judgments are used the classification of the losses related to our investments could differ. In making this judgment, we employ a systematic methodology that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the carrying value of an available-for-sale investment exceeds its fair value, we evaluate, among other factors, general market conditions, the duration and extent to which the fair value is less than carrying value our intent to retain or sell the investment and whether it is more likely than not that we will not be required to sell the investment before the recovery of its amortized cost basis, which may not be until maturity. We also consider specific adverse conditions related to the financial health of and business outlook for the issuer, including industry and sector performance, rating agency actions and changes in credit default swap levels. For our cost method investments, our quarterly review of impairment indicators encompasses the analysis of specific criteria of the entity, such as cash position, financing needs, operational performance, management changes, competition and turnaround potential. If any of the above impairment indicators are present, we further evaluate whether an other-than-temporary impairment should be recorded. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established. See Notes 4 and 5 to our consolidated financial statements and "Liquidity and Capital Resources" for more information on our investments and fair value measurements.

#### Product Related Technology Assets

We have acquired product related technology assets from our business combinations and other third party agreements. In applying purchase accounting, we allocate a portion of purchase price of acquired companies to the product related technology assets acquired based on their estimated fair values. We typically engage third party appraisal firms to assist us in determining the fair values and useful lives of product related technology assets acquired. Such valuations and useful life determinations require us to make significant estimates and assumptions. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in determining the fair value and useful lives of the product related technology assets include but are not limited to future expected cash flows earned from the product related technology and discount rates applied in determining the present value of those cash flows. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

We monitor acquired product related technology assets for impairment on a periodic basis by reviewing indicators of impairment. If an indicator exists we compare the estimated net realizable value to the unamortized cost of the technology. The recoverability of these technologies is primarily dependent upon our ability to commercialize products utilizing these technologies. The estimated net realizable value of the purchased technology is based on the estimated undiscounted future cash flows derived from such technology. Our assumptions about future revenues and expenses require significant judgment associated with the forecast of the performance of our products. Actual revenues and costs could vary significantly from these forecasted amounts. As of December 31, 2011, the estimated undiscounted future cash flows expected from product related technology assets from these acquisitions is sufficient to recover their carrying value. If these products are not ultimately accepted by our customers and distributors, and there is no alternative future use for the technology, we could determine that some or all of their remaining \$204.3 million carrying value is impaired. In the event of impairment, we would record an impairment charge to earnings that could have a material adverse effect on our results of operations.

Goodwill

At December 31, 2011, we had \$1,239.1 million in goodwill related to our acquisitions. The goodwill recorded in relation to these acquisitions is not deductible for tax purposes. Our revenues are derived from sales of our Enterprise division products, which include our Desktop Solutions, Datacenter and Cloud Solutions and related technical services and from sales of our Online Services division's Web collaboration, remote access and support services. The Enterprise division and the Online Services division constitute our two reportable segments. See Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2011 for additional information regarding our reportable

segments. We evaluate goodwill between these segments, which represent our reporting units.

We account for goodwill in accordance with FASB's authoritative guidance, which requires that goodwill and certain intangible assets are not amortized, but are subject to an annual impairment test. We complete our goodwill impairment test on an annual basis, during the fourth quarter of our fiscal year, or more frequently, if changes in facts and circumstances indicate that an impairment in the value of goodwill recorded on our balance sheet may exist. In 2011 we early adopted the authoritative guidance, which provides entities with an option to perform a qualitative assessment to determine whether further quantitative impairment testing for goodwill is necessary, which we refer to as the Qualitative Screen. In performing the Qualitative Screen for our goodwill impairment test, we are required to make assumptions and judgments including but not limited to the following: the evaluation of macroeconomic conditions as related to our business, industry and market trends, and the overall future financial performance of our reporting units and future opportunities in the markets in which they operate. If after performing the Qualitative Screen impairment indicators are present, we would perform a quantitative impairment test to estimate the fair value of goodwill. In doing so, we would estimate future revenue, consider market factors and estimate our future cash flows. Based on these key assumptions, judgments and estimates, we determine whether we need to record an impairment charge to reduce the value of the goodwill carried on our balance sheet to its estimated fair value. Assumptions, judgments and estimates about future values are complex and often subjective and can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy or our internal forecasts. Although we believe the assumptions, judgments and estimates we have made have been reasonable and appropriate, different assumptions, judgments and estimates could materially affect our results of operations.

We performed the Qualitative Screen for our goodwill impairment test in the fourth quarter of 2011. As a result of the Qualitative Screen, no further quantitative impairment test was deemed necessary in 2011. There was no impairment of goodwill as a result of the annual impairment tests completed during the fourth quarters of 2011 and 2010.

Excluding goodwill, we have no intangible assets deemed to have indefinite lives.

#### Income Taxes

We are required to estimate our income taxes in each of the jurisdictions in which we operate as part of the process of preparing our consolidated financial statements. At December 31, 2011, we had approximately \$93.3 million in net deferred tax assets. The authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We review deferred tax assets periodically for recoverability and make estimates and judgments regarding the expected geographic sources of taxable income and gains from investments, as well as tax planning strategies in assessing the need for a valuation allowance. At December 31, 2011, we determined that a \$9.2 million valuation allowance relating to deferred tax assets for net operating losses was necessary. If the estimates and assumptions used in our determination change in the future, we could be required to revise our estimates of the valuation allowances against our deferred tax assets and adjust our provisions for additional income taxes.

In the ordinary course of global business, there are transactions for which the ultimate tax outcome is uncertain, thus judgment is required in determining the worldwide provision for income taxes. We provide for income taxes on transactions based on our estimate of the probable liability. We adjust our provision as appropriate for changes that impact our underlying judgments. Changes that impact provision estimates include such items as jurisdictional interpretations on tax filing positions based on the results of tax audits and general tax authority rulings. Due to the evolving nature of tax rules combined with the large number of jurisdictions in which we operate, it is possible that our estimates of our tax liability and the realizability of our deferred tax assets could change in the future, which may result in additional tax liabilities and adversely affect our results of operations, financial condition and cash flows. The following discussion relating to the individual financial statement captions, our overall financial performance, operations and financial position should be read in conjunction with the factors and events described in "— Overview" and Part 1 – Item 1A entitled "Risk Factors," included in this Annual Report on Form 10-K for the year ended December 31, 2011, which could impact our future performance and financial position.



## Results of Operations

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

	Year Ended December 31,			2011	2010
	2011	2010	2009	Compared to 2010	Compared to 2009
<b>Revenues:</b>					
Product licenses	\$744,513	\$619,452	\$538,975	20.2	% 14.9
License updates	741,834	682,246	604,968	8.7	12.8
Software as a service	430,213	360,617	308,177	19.3	17.0
Technical services	289,832	212,347	161,968	36.5	31.1
Total net revenues	2,206,392	1,874,662	1,614,088	17.7	16.1
<b>Cost of net revenues:</b>					
Cost of license revenues	74,393	66,682	52,160	11.6	27.8
Cost of services revenues	153,063	106,234	87,233	44.1	21.8
Amortization of product related intangible assets	54,741	50,504	47,917	8.4	5.4
Total cost of net revenues	282,197	223,420	187,310	26.3	19.3
Gross margin	1,924,195	1,651,242	1,426,778	16.5	15.7
<b>Operating expenses:</b>					
Research and development	343,727	326,647	281,980	5.2	15.8
Sales, marketing and services	839,818	729,754	679,053	15.1	7.5
General and administrative	307,270	258,875	239,623	18.7	8.0
Amortization of other intangible assets	16,390	14,279	20,972	14.8	(31.9)
Restructuring	24	971	26,473	*	*
Total operating expenses	1,507,229	1,330,526	1,248,101	13.3	6.6
Income from operations	416,966	320,716	178,677	30.0	79.5
Interest income	13,819	14,577	14,683	(5.2)	(0.7)
Other (expense) income, net	(288)	(1,473)	532	*	*
Income before income taxes	430,497	333,820	193,892	29.0	72.2
Income taxes	74,867	57,379	2,875	*	*
Consolidated net income	355,630	276,441	191,017	28.6	44.7
Less: Net loss attributable to non-controlling interest	692	624	—	*	*
Net income attributable to Citrix Systems, Inc.	\$356,322	\$277,065	\$191,017	28.6	% 45.0

\* not meaningful

## Revenues

Net revenues of our Enterprise division include product licenses, license updates, technical services and SaaS. Product Licenses primarily represent fees related to the licensing of the following major products:

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

• Our Datacenter and Cloud Solutions revenues are primarily comprised of sales of our cloud networking products, which include NetScaler, Branch Repeater and Access Gateway and our Cloud platform products, which include XenServer, CloudStack and CloudPortal.

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

License Updates consist of fees related to our Subscription Advantage program that are recognized ratably over the term of the contract, which is typically 12 to 24 months. Subscription Advantage is an annual renewable program that



provides

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subscribers with automatic delivery of unspecified software upgrades, enhancements and maintenance releases when and if they become available during the term of the subscription.

Technical Services revenues are comprised of fees from technical support, which includes hardware and software maintenance, and are recognized ratably over the contract term, as well as revenues from product training and certification, and consulting services revenue related to the implementation of our products, which are recognized as the services are provided. SaaS in our Enterprise division includes fees from sales of our ShareFile products, which are delivered as a subscription service and are recognized ratably over the contract term.

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

During the first quarter of 2012, we performed a review of the historical presentation of the revenue categories presented in our consolidated statements of income. As a result, we will adopt a revised presentation, which we believe is more comparable to those presented by other companies in our industry and better reflects our evolving product offerings, for example, our new software maintenance products. Beginning in the first quarter of 2012 technical support and hardware and software maintenance revenues, which are currently presented in Technical Services, and License Updates will be classified together as License Updates and Maintenance. Product training and certification and consulting services, which are currently presented in Technical Services, will be classified together as Professional Services. The classification of Product Licenses and Software as a Service will remain unchanged. This change in our presentation will not affect our total net revenues, total cost of net revenues or gross margin.

	Year Ended December 31,			2011	2010
	2011	2010	2009	Compared to 2010	Compared to 2009
	(In thousands)				
Revenues:					
Product Licenses	\$744,513	\$619,452	\$538,975	\$125,061	\$80,477
License Updates	741,834	682,246	604,968	59,588	77,278
Software as a Service	430,213	360,617	308,177	69,596	52,440
Technical Services	289,832	212,347	161,968	77,485	50,379
Total net revenues	\$2,206,392	\$1,874,662	\$1,614,088	\$331,730	\$260,574

#### Product Licenses

Product License revenue increased during 2011 when compared to 2010 primarily due to increased sales of our Desktop Solutions, led by XenDesktop, of \$74.1 million and increased sales of our Datacenter and Cloud Solutions, led by NetScaler, of \$48.7 million. Product License revenue increased during 2010 when compared to 2009 primarily due to increased sales of our Datacenter and Cloud Solutions, led by NetScaler, of \$41.3 million and increased sales of our Desktop Solutions, led by XenDesktop and related programs, of \$41.2 million. We currently target Product License sales to increase when comparing the first quarter of 2012 to the first quarter of 2011.

#### License Updates

License Updates revenue increased during 2011 when compared to 2010 primarily due to an increase in Subscription Advantage renewal sales over a larger base of subscribers. License Updates revenue increased during 2010 when compared to 2009 primarily due to an increase in new Subscription Advantage sales, led by increased XenDesktop product sales. We currently are targeting that License Updates revenue will increase when comparing the first quarter of 2012 to the first quarter of 2011 and when comparing the first quarter of 2012 to the fourth quarter of 2011. As described above, in the first quarter of 2012 License Updates revenue will be classified in Maintenance revenues.

#### Software as a Service

Software as a Service revenues increased during 2011 when compared to 2010 and during 2010 compared to 2009 primarily due to increased sales of our Online Services division's Web collaboration products. We currently target our Software as a Service revenues to increase when comparing the first quarter of 2012 to the first quarter of 2011 and when comparing the first quarter of 2012 to the fourth quarter of 2011 due primarily to increased sales of our Web

collaboration products.

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### Technical Services

Technical Services revenue increased during 2011 when compared to 2010 primarily due to increases in technical support revenues of \$45.4 million driven by increased sales of our Datacenter and Cloud Solutions and an increase in consulting revenues of \$23.9 million related to increased sales of our Enterprise division's products. Technical Services revenue increased during 2010 when compared to 2009 primarily due to increases in support revenues of \$22.5 million driven by increased sales of our Datacenter and Cloud Solutions and an increase in consulting revenues of \$15.4 million related to increased sales of our Enterprise division's products. We currently target technical support and consulting revenues to increase when comparing the first quarter of 2012 to the first quarter of 2011 consistent with the increase in Product License revenue described above. As described above, in the first quarter of 2012 product training and certification and consulting services will be classified as Professional Services revenues, and hardware and software maintenance and technical support will be classified as Maintenance revenues.

### Deferred Revenue

Deferred revenues are primarily comprised of License Updates revenue from Subscription Advantage, Technical Services revenues related to our support services and consulting contracts and Software as a Service revenues from annual service agreements. Deferred revenues primarily increased approximately \$180.9 million as of December 31, 2011 compared to December 31, 2010 primarily due to increased sales and renewals of our Subscription Advantage product of \$111.2 million and increased sales of our support services of \$51.3 million. We currently target deferred revenue to continue to increase in 2012.

While it is generally our practice to promptly ship our products upon receipt of properly finalized purchase orders, we sometimes have product license orders that have not shipped. Although the amount of such product license orders may vary, the amount, if any, of such product license orders at the end of a particular period has not been material to total revenue at the end of any reporting period. We do not believe that backlog, as of any particular date, is a reliable indicator of future performance.

### International Revenues

International revenues (sales outside the United States) accounted for approximately 43.2% of our net revenues for the year ended December 31, 2011, 42.7% of our net revenues for the year ended December 31, 2010 and 43.6% of our net revenues for the year ended December 31, 2009. For detailed information on international revenues, please refer to Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2011.

### Segment Revenues

Our revenues are derived from sales of Enterprise division products which primarily include our Desktop Solutions, Datacenter and Cloud Solutions products and related technical services and from our Online Services division's Web collaboration, connectivity and remote support services. The Enterprise division and the Online Services division constitute our two reportable segments.

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

	Year Ended December 31,			Revenue	Revenue	
	2011	2010	2009	Growth	Growth	
	(In thousands)			2011 to 2010	2010 to 2009	
Enterprise division	\$1,778,646	\$1,514,045	\$1,305,911	17.5	% 15.9	%
Online Services division	427,746	360,617	308,177	18.6	% 17.0	%
Consolidated net revenues	\$2,206,392	\$1,874,662	\$1,614,088	17.7	% 16.1	%

With respect to our segment revenues, the increase in net revenues for the comparative periods presented was due primarily to the factors previously discussed above. See Note 12 of our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2011 for additional information on our segment revenues.

## Cost of Net Revenues

	Year Ended December 31,			2011	2010
	2011	2010	2009	Compared to 2010	Compared to 2009
	(In thousands)				
Cost of product license revenues	\$74,393	\$66,682	\$52,160	\$7,711	\$14,522
Cost of services revenues	153,063	106,234	87,233	46,829	19,001
Amortization of product related intangible assets	54,741	50,504	47,917	4,237	2,587
Total cost of net revenues	\$282,197	\$223,420	\$187,310	\$58,777	\$36,110

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

Cost of product license revenues increased during 2011 when compared to 2010 and during 2010 when compared to 2009 primarily due to increased sales of our Datacenter and Cloud Solutions, as described above, many of which contain hardware components that have a higher cost than our other software products. We currently are targeting cost of product license revenues will increase when comparing the first quarter of 2012 to the first quarter of 2011 consistent with increases in our product license revenues.

Cost of services revenues increased during 2011 compared to 2010 consistent with the increase in sales of our Web collaboration products, and related investments in platforms and server capacity of \$24.0 million. Also contributing to the increase in cost of services revenues is an increase in consulting and support costs of \$15.2 million related to increased sales of our Enterprise division's technical services as described above. Cost of services revenues increased during 2010 compared to 2009 consistent with the increase in revenue of technical services related to our Enterprise division's products as described above. We currently are targeting cost of services revenues will increase when comparing the first quarter of 2012 to the first quarter of 2011 consistent with the increase in Software as a Service and Technical Services revenues as discussed above.

## Gross Margin

Gross margin as a percent of revenue was 87.2% for 2011, 88.1% for 2010 and 88.4% for 2009. The slight decrease in gross margin as a percentage of net revenue for all periods presented was primarily due to the increase in sales of products with a hardware component and increased sales of our services both of which have a higher cost than our software products.

## Operating Expenses

## Foreign Currency Impact on Operating Expenses

A substantial majority of our overseas operating expenses and capital purchasing activities are transacted in local currencies and are therefore subject to fluctuations in foreign currency exchange rates. In order to minimize the impact on our operating results, we generally initiate our hedging of currency exchange risks up to 15 months in advance of anticipated foreign currency expenses. When the dollar is weak, the resulting increase to foreign currency denominated expenses will be partially offset by the gain in our hedging contracts. When the dollar is strong, the resulting decrease to foreign currency denominated expenses will be partially offset by the loss in our hedging contracts. There is a risk that there will be fluctuations in foreign currency exchange rates beyond the timeframe for which we hedge our risk.

## Research and Development Expenses

	Year Ended December 31,			2011	2010
	2011	2010	2009	Compared to 2010	Compared to 2009
	(In thousands)				
Research and development	\$343,727	\$326,647	\$281,980	\$17,080	\$44,667

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

in the research and development of our products.

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Research and development expenses increased during 2011 as compared to 2010 due to a \$36.4 million increase in compensation and other employee related costs primarily related to increased headcount due to strategic hiring and acquisitions. Partially offsetting the increases in research and development costs when comparing 2011 to 2010 is a \$22.4 million decrease in stock-based compensation expense due to stock-based awards related to certain acquisitions that fully vested.

Research and development expenses increased during 2010 as compared to 2009 primarily due to a \$30.9 million increase in compensation and other employee related costs. Also contributing to the increase in research and development expenses was a \$10.9 million increase in facilities and related depreciation. These increases primarily relate to the strategic hiring of employees in research and development as discussed above in our Executive Summary.

#### Sales, Marketing and Services Expenses

	Year Ended December 31,			2011	2010
	2011	2010	2009	Compared to 2010	Compared to 2009
	(In thousands)				
Sales, marketing and services	\$839,818	\$729,754	\$679,053	\$110,064	\$50,701

Sales, marketing and services expenses consisted primarily of personnel related costs, including sales commissions, pre-sales support, the costs of marketing programs aimed at increasing revenue, such as brand development, advertising, trade shows, public relations and other market development programs and costs related to our facilities, equipment and information systems that are directly related to our sales, marketing and services activities.

Sales, marketing and services expenses increased during 2011 compared to 2010 primarily due to an \$81.1 million increase in compensation, including variable compensation and employee-related costs due to additional headcount in our sales force and technical services group, as well as from our acquisitions. Also contributing to the increase in sales, marketing and services expense was a \$10.6 million increase in facilities costs and related depreciation consistent with the increase in headcount and a \$10.3 million increase in marketing program costs related to various marketing campaigns and events.

Sales, marketing and services expenses increased during 2010 compared to 2009 primarily due to a \$43.1 million increase in compensation including variable compensation and employee related costs due to additional headcount in our sales force and technical services group. Also contributing to the increase in sales, marketing and services expense was a \$13.8 million increase in marketing program costs related to our brand awareness campaigns.

#### General and Administrative Expenses

	Year Ended December 31,			2011	2010
	2011	2010	2009	Compared to 2010	Compared to 2009
	(In thousands)				
General and administrative	\$307,270	\$258,875	\$239,623	\$48,395	\$19,252

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

General and administrative expenses increased during 2011 compared to 2010 primarily due to an increase in compensation and employee related costs of \$30.4 million due to additional headcount, primarily in IT, facilities and operations, to support our growth and a related increase in stock-based compensation of \$8.6 million. Also contributing to the increase in general and administrative expense is a \$9.9 million increase in professional fees primarily related to acquisitions and strategic investment activity. General and administrative expenses increased during 2010 compared to 2009 primarily due to an increase in compensation and employee related costs due to additional headcount, primarily in IT.

#### 2012 Operating Expense Outlook

During the first quarter of 2012, we revised our methodology for allocating certain IT support costs to more closely align these costs with the employees directly utilizing the related assets and services. As a result, certain IT support costs will be reclassified from general and administrative expenses to research and development expenses and sales,

marketing and services expenses based on the headcount in each of these functional areas.

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When comparing the first quarter of 2012 to the fourth quarter of 2011, we are targeting operating expenses to increase in research and development and sales, marketing and services due to the full quarter impact of the acquisitions completed in the fourth quarter of 2011, investments that we have made in headcount and related expenses as well as the re-allocation of certain IT support costs as discussed above. Conversely, we are targeting general and administrative expenses to decrease by the amount of IT support costs allocated to research and development and sales, marketing and services, as described above. This decrease will be partially offset by an increase in general and administrative expenses due to the full quarter impact of the acquisitions completed in fourth quarter of 2011 and investments in headcount and related costs that we have made to support our growth.

#### Amortization of Other Intangible Assets

	Year Ended December 31,			2011	2010
	2011	2010	2009	Compared to 2010	Compared to 2009
	(In thousands)				
Amortization of other intangible assets	\$16,390	\$14,279	\$20,972	\$2,111	\$(6,693 )

Amortization of other intangible assets consists of amortization of customer relationships, trade names and covenants not to compete primarily related to our acquisitions. The increase in amortization of other intangible assets during 2011 as compared to 2010 was primarily due to acquired intangible assets related to 2011 acquisitions of \$5.9 million offset by other acquired customer related intangible assets becoming fully amortized during 2011 of \$4.0 million. The decrease in amortization of other intangible assets during 2010 as compared to 2009 was primarily due to acquired customer related intangible assets becoming fully amortized during 2010. As of December 31, 2011, we had unamortized other identified intangible assets with estimable useful lives in the net amount of \$139.1 million. For more information regarding our acquisitions see, “— Overview” and Note 3 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2011.

#### Other (Expense) Income, Net

	Year Ended December 31,			2011	2010
	2011	2010	2009	Compared to 2010	Compared to 2009
	(In thousands)				
Other (expense) income, net	\$(288 )	\$(1,473 )	\$532	\$1,185	\$(2,005 )

Other (expense) income, net is primarily comprised of remeasurement of foreign currency transaction gains (losses), realized gains (losses) related to changes in the fair value of our investments that have a decline in fair value that is considered other-than-temporary, recognized gains (losses) related to investments and interest expense which was not material for all periods presented.

The increase in Other (expense) income, net when comparing 2011 to 2010 primarily due to a gain on remeasurement of our foreign currency transactions of \$3.5 million and a decrease in losses recognized on prepayments at par of securities purchased at a premium within our available-for-sale investment portfolio of \$0.6 million partially offset by an impairment recognized on a cost method investment of \$3.5 million. Other (expense) income, net increased when comparing 2010 to 2009 primarily due to losses recognized on prepayments at par of securities purchased at a premium within our available-for-sale investment portfolio. For more information see “— Liquidity and Capital Resources” and Note 4 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2011.

#### Income Taxes

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

In the ordinary course of global business, there are transactions for which the ultimate tax outcome is uncertain and judgment is required in determining the worldwide provision for income taxes. We provide for income taxes on transactions based on our estimate of the probable liability. We adjust our provision as appropriate for changes that

impact our underlying judgments. Changes that impact provision estimates include such items as jurisdictional interpretations on tax filing positions based on the results of tax audits and general tax authority rulings. Due to the evolving nature of tax rules combined with the

large number of jurisdictions in which we operate, it is possible that our estimates of our tax liability and the realizability of our deferred tax assets could change in the future, which may result in additional tax liabilities and adversely affect our results of operations, financial condition and cash flows.

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

The final settlement requires the finalization of tax deficiency calculations with the IRS and a written agreement signed by the IRS. It is uncertain how long it will take to reach a final settlement with the IRS. There can be no assurances that a final written agreement will be obtained or that this matter will otherwise be resolved in our favor. An adverse outcome of this matter could have a material adverse effect on our results of operations and financial condition.

We are required to estimate our income taxes in each of the jurisdictions in which we operate as part of the process of preparing our consolidated financial statements. At December 31, 2011, we had approximately \$93.3 million in net deferred tax assets. The authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We review deferred tax assets periodically for recoverability and make estimates and judgments regarding the expected geographic sources of taxable income and gains from investments, as well as tax planning strategies in assessing the need for a valuation allowance. At December 31, 2011, we determined that \$9.2 million valuation allowance relating to deferred tax assets for net operating losses and tax credits was necessary. If the estimates and assumptions used in our determination change in the future, we could be required to revise our estimates of the valuation allowances against our deferred tax assets and adjust our provisions for additional income taxes.

We maintain certain strategic management and operational activities in overseas subsidiaries and our foreign earnings are taxed at rates that are generally lower than in the United States. We do not expect to remit earnings from our foreign subsidiaries. Our effective tax rate was approximately 17.4% for the year ended December 31, 2011 and 17.2% for the year ended December 31, 2010. The increase in the effective tax rate when comparing the year ended December 31, 2011 to the year ended December 31, 2010 was not significant.

Our effective tax rate generally differs from the U.S. federal statutory rate of 35% due primarily to lower tax rates on earnings generated by our foreign operations that are taxed primarily in Switzerland. We have not provided for U.S. taxes for those earnings because we plan to reinvest all of those earnings indefinitely outside the United States. Our effective tax rate will fluctuate based on the mix of earnings from our U.S. and foreign jurisdictions. Accordingly, earnings from the production and distribution of our products and services through our foreign headquarters in Switzerland are currently taxed at lower income tax rates than earnings from our U.S. operations.

#### Liquidity and Capital Resources

During 2011 we generated operating cash flows of \$679.1 million. These operating cash flows related primarily to net income of \$355.6 million, adjusted for, among other things, non-cash charges, including depreciation and amortization expenses of \$159.3 million and stock-based compensation expense of \$92.9 million. Also contributing to these cash inflows was an aggregate increase in operating assets and liabilities of \$73.9 million, net of effects of acquisitions. Our investing activities used \$451.2 million of cash consisting primarily of cash paid for acquisitions of \$455.4 million, the purchase of property and equipment of \$111.9 million and \$32.3 million in cash paid for licensing agreements and other assets. These investing cash outflows were partially offset by net sales of investments of \$148.4 million. Our financing activities used cash of \$292.6 million primarily due to stock repurchases of \$424.8 million. This financing cash outflow was partially offset by proceeds received from the issuance of common stock under our employee stock-based compensation plans of \$125.6 million.

During 2010 we generated operating cash flows of \$616.3 million. These cash flows related primarily to net income of \$276.4 million, adjusted for, among other things, non-cash charges including depreciation and amortization of \$138.2 million, stock-based compensation expense of \$103.8 million and the tax effect of stock-based compensation of \$51.5 million. Also contributing to these cash inflows is an aggregate increase in cash flow from our operating assets and liabilities of \$144.8 million, net of the effects of acquisitions. These operating cash inflows are partially offset by the excess benefit from the exercise of stock options of \$60.2 million and \$46.7 million related to a deferred income tax benefit. Our investing activities used \$457.0 million of cash consisting primarily of cash paid for net purchases of investments of \$335.0 million. Also

contributing to these cash outflows is the purchase of property and equipment of \$75.4 million, \$26.2 million in cash paid for licensing agreements and other assets and \$20.5 million in cash paid for acquisitions. Our financing activities used cash of \$26.3 million, primarily from expenditures on our stock repurchase program of \$433.7 million partially offset by proceeds received from the issuance of common stock under our employee stock-based compensation plans of \$353.6 million and the excess tax benefit from the exercise of stock options of \$60.2 million.

Historically, significant portions of our cash inflows were generated by our operations. We currently expect this trend to continue throughout 2012. We believe that our existing cash and investments together with cash flows expected from operations will be sufficient to meet expected operating and capital expenditure requirements for the next 12 months. We continue to search for suitable acquisition candidates and could acquire or make investments in companies we believe are related to our strategic objectives. We could from time to time seek to raise additional funds through the issuance of debt or equity securities for larger acquisitions.

#### Cash, Cash Equivalents and Investments

	December 31, 2011	2010	2011 Compared to 2010
	(In thousands)		
Cash, cash equivalents and investments	\$1,477,601	\$1,685,659	\$(208,058 )

The decrease in cash, cash equivalents and investments at December 31, 2011 as compared to December 31, 2010, is primarily due to cash paid for acquisitions, net of cash acquired, of \$455.4 million, expenditures made on stock repurchases of \$424.8 million, purchases of property and equipment of \$111.9 million and purchases of cost method investments and product-related intangible assets of \$32.3 million partially offset by cash provided by our operating activities of \$679.1 million and cash received from the issuance of common stock under our employee stock-based compensation plans of \$125.6 million. As of December 31, 2011, \$554.7 million of the \$1,477.6 million of cash, cash equivalents and investments was held by our foreign subsidiaries. If these funds are needed for our operations in the United States, we would be required to accrue and pay U.S. taxes to repatriate these funds. Our current plans are not expected to require repatriation of cash and investments to fund our U.S. operations and, as a result, we intend to permanently reinvest our foreign earnings. See “– Liquidity and Capital Resources.” We generally invest our cash and cash equivalents in investment grade, highly liquid securities to allow for flexibility in the event of immediate cash needs. Our short-term and long-term investments primarily consist of interest-bearing securities.

#### Fair Value Measurements

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

- Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Available-for-sale securities included in Level 2 are valued utilizing inputs obtained from an independent pricing service, or the Service, which uses quoted market prices for identical or comparable instruments rather than direct observations of quoted prices in active markets. The Service gathers observable inputs for all of our fixed income securities from a variety of industry data providers including, for example, large custodial institutions and other third-party sources. Once the observable inputs are gathered by the Service, all data points are considered and an average price is determined. The Service’s providers utilize a variety of inputs to determine their quoted prices. These inputs may include interest rates, known historical trades, yield curve information, benchmark data, prepayment speeds, credit quality and broker/dealer quotes. Substantially all of our available-for-sale investments are valued utilizing inputs obtained from the Service and accordingly are categorized as Level 2 in the table below. We

periodically independently assess the pricing obtained from the Service and historically have not adjusted the Service's pricing as a result of this assessment. Available-for-sale securities are included in Level 3 when relevant observable inputs for a security are not available.

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the classification of assets and liabilities within the fair value hierarchy. In certain instances, the inputs used to measure fair value may meet the definition of more than one level of the fair value hierarchy. The input with the lowest level priority is used to determine the applicable level in the fair value hierarchy.

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis

Our fixed income available-for-sale security portfolio generally consists of high quality, investment grade securities from diverse issuers with a minimum credit rating of A-/A3 and a weighted-average credit rating of AA+/Aa1. We previously classified these investments as Level 1 because we did not make adjustments to the prices obtained from the Service. However, as we value these securities based on pricing from the Service, whose sources may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value, we began classifying all of our fixed income available-for-sale securities as Level 2 during 2011. See Note 4 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2011 for more information regarding our available-for-sale investments.

We measure our cash flow hedges, which are classified as prepaid expenses and other current assets and accrued expenses and other current liabilities, at fair value based on indicative prices in active markets (Level 2 inputs). We have invested in convertible debt securities of certain early-stage entities that are classified as available-for-sale investments. As quoted prices in active markets or other observable inputs were not available for these investments, in order to measure them at fair value, we utilized a discounted cash flow model using a discount rate reflecting the market risk inherent in holding securities of an early-stage enterprise, adjusted by the probability-weighted exit possibilities associated with the convertible debt securities. This methodology required us to make assumptions that were not directly or indirectly observable regarding the fair value of the convertible debt securities; accordingly it is a Level 3 valuation and is included in the "Purchases of Level 3 securities" line in the table below.

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

	Long-term Investments (in thousands)
Balance at December 31, 2010	\$49,340
Purchases of Level 3 securities	\$3,696
Proceeds received on Level 3 securities <sup>(1)</sup>	\$(50,000 )
Decrease in previously recognized unrealized losses included in accumulated other comprehensive (loss) income	660
Balance at December 31, 2011	\$3,696

<sup>(1)</sup> In September 2011, our investment in AIG Matched Funding Corporation matured and proceeds of \$50.0 million were received. See Notes 4 and 5 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2011 for more information.

#### Assets Measured at Fair Value on a Non-recurring Basis Using Significant Unobservable Inputs (Level 3)

During the third quarter of 2011, one of our cost method investments with a carrying value of \$5.0 million was determined to be impaired and has been written down to its fair value of \$1.5 million, resulting in an impairment charge of \$3.5 million, which is included in other (expense) income in our consolidated financial statements for the year ended December 31, 2011. The fair value of the cost method investment represents a Level 3 valuation as the assumptions used in valuing this investment were not directly or indirectly observable.

## Accounts Receivable, Net

	December 31,		2011
	2011	2010	Compared to 2010
	(In thousands)		
Accounts receivable	\$488,356	\$382,654	\$105,702
Allowance for returns	(1,361)	(850)	(511)
Allowance for doubtful accounts	(2,564)	(3,409)	845
Accounts receivable, net	\$484,431	\$378,395	\$106,036

The increase in accounts receivable at December 31, 2011 compared to December 31, 2010 was primarily due to increase in sales, particularly in the last month of 2011 compared to the last month of 2010. The activity in our allowance for returns was comprised primarily of \$5.5 million of provisions for returns recorded during 2011 partially offset by \$5.0 million in credits issued for returns during the 2011. The activity in our allowance for doubtful accounts was comprised primarily of \$2.6 million of uncollectible accounts written off, net of recoveries during 2011 partially offset by \$1.7 million in additional provisions for doubtful accounts primarily acquired in connection with our acquisitions during 2011.

From time to time, we could maintain individually significant accounts receivable balances from our distributors or customers, which are comprised of large business enterprises, governments and small and medium-sized businesses. If the financial condition of our distributors or customers deteriorates, our operating results could be adversely affected. At December 31, 2011, one distributor, Ingram Micro, accounted for 14% of our accounts receivable. At December 31, 2010, one distributor, Ingram Micro, accounted for 17% of our accounts receivable. For more information regarding significant customers see Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2011.

## Credit Facility

Effective on August 9, 2005, we entered into a revolving credit facility, or the Credit Facility, with a group of financial institutions. Effective September 27, 2006, we entered into an amendment and restatement of our Credit Facility, or the Amendment. The Amendment decreased the overall range of interest rates we paid on amounts outstanding on the Credit Facility and lowered the facility fee. In addition, the Amendment extended the term of the Credit Facility until September 27, 2011. The Credit Facility, as amended, provided for a revolving line of credit in the aggregate amount of \$100.0 million, subject to continued covenant compliance. The Credit Facility, as amended, bore interest at the London Interbank Offered Rate (“LIBOR”) plus 0.32% and adjusted in the range of 0.32% to 0.80% above LIBOR based on the level of our total debt and our adjusted earnings before interest, taxes, depreciation and amortization (“EBITDA”) as defined in the agreement. In addition, we were required to pay a quarterly facility fee ranging from 0.08% to 0.20% based on the aggregate amount available under the Credit Facility, as amended, and the level of our total debt and its adjusted EBITDA. We did not renew the credit facility and it expired on September 27, 2011. Upon expiration, there was no indebtedness outstanding under the Credit Facility.

## Stock Repurchase Program

Our Board of Directors authorized an ongoing stock repurchase program with a total repurchase authority granted to us of \$3.0 billion. We may use the approved dollar authority to repurchase stock at any time until the approved amounts are exhausted. The objective of our stock repurchase program is to improve stockholders’ returns. At December 31, 2011, approximately \$186.6 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock in our consolidated balance sheets included in this Annual Report on Form 10-K for the year ended December 31, 2011. A portion of the funds used to repurchase stock over the course of the program was provided by proceeds from employee stock option exercises and the related tax benefit.

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



end of the agreement or the receipt of either stock or cash at the maturity of the agreement, depending on market conditions.

During the year ended December 31, 2011, we expended approximately \$424.8 million on open market purchases, repurchasing 6,275,470 shares of outstanding common stock at an average price of \$67.70. As of December 31, 2011, we did not have any prepaid notional amounts outstanding under structured stock repurchase programs and during the year we did not

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make any up-front payments to financial institutions related to structured stock repurchase agreements. During the year ended December 31, 2010, we expended approximately \$434.8 million on open market purchases, repurchasing 8,157,400 shares of outstanding common stock at an average price of \$53.31. In addition, during the third quarter of 2010, we made an up-front payment of \$15.0 million to a financial institution related to a structured stock repurchase agreement. At the maturity of the agreement in the fourth quarter of 2010, we received \$16.1 million in cash, including premiums, and did not take delivery of any shares related to the agreement due to market conditions. As of December 31, 2010, we did not have any prepaid notional amounts outstanding related to our structured stock repurchase programs.

During the year ended December 31, 2009, we expended approximately \$214.9 million on open market purchases, repurchasing 6,475,830 shares of outstanding common stock at an average price of \$33.19. As of December 31, 2009, we did not have any prepaid notional amounts outstanding under our structured stock repurchase programs and during the year we did not make any up-front payments to financial institutions related to structured stock repurchase agreements.

#### Shares for Tax Withholding

During the years ended December 31, 2011, 2010 and 2009, we withheld 182,203 shares, 123,489 shares and 46,732 shares, respectively, from stock units that vested. Amounts withheld to satisfy minimum tax withholding obligations that arose on the vesting of stock unit awards was \$13.3 million for 2011, \$6.3 million for 2010 and \$1.8 million for 2009. These shares are reflected as treasury stock in our consolidated balance sheets included in this Annual Report on Form 10-K for the year ended December 31, 2011 and the related cash outlays reduce our total stock repurchase authority.

#### Contractual Obligations and Off-Balance Sheet Arrangement

##### Contractual Obligations

We have certain contractual obligations that are recorded as liabilities in our consolidated financial statements. Other items, such as operating lease obligations, are not recognized as liabilities in our consolidated financial statements, but are required to be disclosed in the notes to our consolidated financial statements.

The following table summarizes our significant contractual obligations at December 31, 2011 and the future periods in which such obligations are expected to be settled in cash. Additional details regarding these obligations are provided in the notes to our consolidated financial statements (in thousands):

	Payments due by period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Operating lease obligations	\$261,323	\$59,925	\$103,738	\$68,087	\$29,573
Purchase obligations <sup>(1)</sup>	21,200	21,200	—	—	—
Total contractual obligations <sup>(2)</sup>	\$282,523	\$81,125	\$103,738	\$68,087	\$29,573

Purchase obligations represent non-cancelable commitments to purchase inventory ordered before year-end of (1) approximately \$11.8 million and a contingent obligation to purchase inventory, which is based on amount of usage, of approximately \$9.4 million.

Total contractual obligations do not include agreements where our commitment is variable in nature or where cancellations without payment provisions exist and excludes \$79.2 million of liabilities related to uncertain tax (2) positions recorded in accordance with authoritative guidance, because we could not make reasonably reliable estimates of the period or amount of cash settlement with the respective taxing authorities. See Note 11 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2011 for further information.

As of December 31, 2011, we did not have any individually material capital lease obligations or other material long-term commitments reflected on our consolidated balance sheets.

Commitments

Capital expenditures were \$111.9 million during 2011, \$75.4 million during 2010 and \$76.2 million during 2009. During 2011, 2010 and 2009, capital expenditures were primarily related to application and infrastructure delivery to enable growth and enhance management reporting capabilities and leasehold improvements.

#### Office Leases

We have operating lease obligations through 2018 related to two properties that are not utilized. At December 31, 2011, the total remaining obligation on these leases was approximately \$5.4 million, of which \$2.1 million was accrued as of December 31, 2011, and is reflected in accrued expenses and other current liabilities and other liabilities in our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2011. In calculating this accrual, we made estimates, based on market information, including the estimated vacancy periods and sublease rates and opportunities. We periodically re-evaluate our estimates related to these vacant facilities.

#### Off-Balance Sheet Arrangements

We do not have any special purpose entities or off-balance sheet financing arrangements.

#### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following exhibits are filed as part of this Amendment No. 1.

Exhibit No.	Description
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31.1	Rule 13a-14(a) / 15d-14(a) Certification of Principal Executive Officer
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31.2	Rule 13a-14(a) / 15d-14(a) Certification of Principal Financial Officer
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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in Fort Lauderdale, Florida on the 9<sup>th</sup> day of March, 2012.

CITRIX SYSTEMS, INC.

By:

/s/ DAVID J. HENSHALL  
David J. Henshall  
Chief Financial Officer and Executive Vice  
President, Operations

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EXHIBIT INDEX

Exhibit No.	Description
31.1	Rule 13a-14(a) / 15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a) / 15d-14(a) Certification of Principal Financial Officer