

CITRIX SYSTEMS INC  
Form 10-K  
February 15, 2019  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 0-27084

CITRIX SYSTEMS, INC.  
(Exact name of registrant as specified in its charter)

Delaware 75-2275152  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

851 West Cypress Creek Road  
Fort Lauderdale, Florida 33309  
(Address of principal executive offices, including  
zip code)

Registrant's Telephone Number, Including Area Code:  
(954) 267-3000

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

Common Stock, \$.001 Par Value The Nasdaq Stock Market LLC  
(Title of each class) (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

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

Large accelerated filer  Accelerated filer  
 Non-accelerated filer  Smaller reporting company  
 Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act.

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

The aggregate market value of Common Stock held by non-affiliates of the registrant computed by reference to the price of the registrant's Common Stock as of the last business day of the registrant's most recently completed second fiscal quarter (based on the last reported sale price on The Nasdaq Global Select Market as of such date) was \$13,765,749,900. As of February 8, 2019 there were 131,725,833 shares of the registrant's Common Stock, \$.001 par value per share, outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file a definitive proxy statement pursuant to Regulation 14A within 120 days of the end of the fiscal year ended December 31, 2018. Portions of such definitive proxy statement are incorporated by reference into Part III of this Annual Report on Form 10-K.

CITRIX SYSTEMS, INC.  
TABLE OF CONTENTS

Part I:	
Item 1	<u>Business</u> 3
Item 1A.	<u>Risk Factors</u> 12
Item 1B.	<u>Unresolved Staff Comments</u> 27
Item 2	<u>Properties</u> 27
Item 3	<u>Legal Proceedings</u> 27
Item 4	<u>Mine Safety Disclosures</u> 27
Part II:	
Item 5	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 28
Item 6	<u>Selected Financial Data</u> 29
Item 7	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 30
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 48
Item 8	<u>Financial Statements and Supplementary Data</u> 48
Item 9	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u> 49
Item 9A.	<u>Controls and Procedures</u> 49
Item 9B.	<u>Other Information</u> 51
Part III:	
Item 10	<u>Directors, Executive Officers and Corporate Governance</u> 51
Item 11	<u>Executive Compensation</u> 51
Item 12	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 51
Item 13	<u>Certain Relationships and Related Transactions and Director Independence</u> 51
Item 14	<u>Principal Accounting Fees and Services</u> 51
Part IV:	
Item 15	<u>Exhibits, Financial Statement Schedules</u> 52
Item 16	<u>Form 10-K Summary</u> 57

## PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such actual results to differ materially from those set forth in these forward-looking statements are included in Part I, Item 1A “Risk Factors” beginning on page 12.

### ITEM 1. BUSINESS

#### Business Overview

Citrix Systems, Inc., or Citrix, the Company, we or us, is a Delaware corporation incorporated on April 17, 1989. Citrix aims to power a better way to work by delivering the experience, security, and choice people and organizations need to unlock innovation, engage customers, and be productive - anytime, anywhere. It is our vision to deliver a general purpose digital workspace that empowers all users with unified, secure, and reliable access to all apps and content needed to be productive - anytime, anywhere. We help customers reimagine the future of work by delivering unified digital workspace, networking, and analytics solutions that improve employee experience and productivity, while also simplifying IT’s ability to adopt and manage complex cloud environments.

Digital transformation is occurring in every industry at a rapid pace. Businesses today are adopting cloud services and software as a service, or SaaS, apps on a broad basis. Many businesses are juggling multiple cloud providers and dozens of new SaaS apps. Yet, we believe many organizations will still be managing legacy infrastructure and on-premises workloads for many years to come. This combination of increased complexity with mobility and new workstyles results in a fragmented user experience, an increase in security risks, and IT teams challenged to properly manage the technology needs of organizations.

As a result of this convergence of cloud, legacy systems, and newer technologies, including artificial intelligence and machine learning, organizations are now seeking to adopt multi-cloud, hybrid-cloud strategies for their IT infrastructure, so that they can provide flexibility to navigate all systems and security to address ever-expanding attack surfaces, all without sacrificing experience for their end users.

As we continue on our journey of cloud transformation as an organization, we are focused on three strategic priorities. First, we are accelerating our move to a subscription-based business model and to offer all of our solutions as cloud services to give organizations flexibility in how they work. Second, we are continuing to unify our portfolio to simplify user and IT experience. Finally, to help meet the expected demands of the future, we are expanding our opportunities with adjacent technologies to help extend value to our customers and meet their needs in the future. In 2018, Citrix made acquisitions in two such areas, acquiring Cedexis for Intelligent Traffic Management to boost the capabilities of our networking solutions, and Sapho to expand Intelligent Workflow capabilities into the Citrix Workspace solutions.

In 2018, we retired all of our point product brand names to simplify our positioning and product naming to make our solutions easier to understand, sell and buy. Citrix simplified its solutions naming to three categories: Digital Workspace, Networking, and Analytics. We moved all products to a functional descriptor naming mechanism, such as Citrix Virtual Apps and Desktops, Citrix ADC, Citrix SD-WAN, Citrix Endpoint Management, etc. We market and license our solutions through multiple channels worldwide, including selling through resellers and direct over the Web. Our partner community comprises thousands of value-added resellers, or VARs known as Citrix Solution Advisors, value-added distributors, or VADs, systems integrators, or SIs, independent software vendors, or ISVs, original equipment manufacturers, or OEMs, and Citrix Service Providers, or CSPs.

#### Separation of GoTo Business

On January 31, 2017, we completed the separation and subsequent merger of the GoTo family of service offerings of our wholly-owned subsidiary, GetGo, Inc., or GetGo, to LogMeIn, Inc., or LogMeIn, pursuant to a pro rata distribution to our stockholders of 100% of the shares of common stock of GetGo, pursuant to a Reverse Morris Trust, or RMT, transaction. The GoTo family of service offerings consisted of GoToMeeting, GoToWebinar, GoToTraining, GoToMyPC, GoToAssist, Grasshopper and OpenVoice, or collectively the GoTo Business, and had historically been part of our GoTo Business segment. As a result, the consolidated financial statements included in this Annual Report on Form 10-K and related financial information reflect the GoTo Business operations, assets and liabilities, and cash flows as discontinued operations for all periods presented. See Note 3 to our consolidated financial statements

included in this Annual Report on Form 10-K for further information.

3

---

## Solutions and Services

We are enabling the future of work by delivering digital workspace, networking, and analytics solutions that help customers drive innovation and be productive anytime, anywhere. Our unified, contextual and secure digital workspace enables customers to deliver and manage the apps, desktops, data and devices users need. The Citrix networking portfolio, when implemented with digital workspace, ensures consistency of user experience, enables agile delivery of new and merging application types, and facilitates reliability and performance from any resource location. Our customers can realize the full benefits of hybrid and multi-cloud environments while simplifying management and overcoming security challenges. Our solutions and services target customers of all sizes, from small businesses to large global enterprises.

Our secure digital workspace technologies are available as cloud services and can be managed as hybrid and multi-cloud environments. Our cloud-based services, or Citrix Cloud Services, enable our customers to provide a flexible way to manage their applications and data. This cloud-based approach is designed to provide reduced infrastructure, centralized control and SaaS-style updates resulting in lower administration cost and complexity. These cloud services are available as an integrated service or as individual services scaled to meet our customers' business needs.

We offer subscription-based and on-premise subscription software and perpetual licenses for our solutions, along with annual subscriptions for software updates and technical support. Perpetual licenses allow our customers to use the version of software initially purchased into perpetuity, while subscription licenses are limited to a specified period of time. Customer Success Services, which include software maintenance subscriptions, give customers the right to upgrade to new software versions if and when any updates are delivered during the subscription term. Perpetual license software comes primarily in electronic-based forms. We also offer on-premise subscription licenses to service providers through the Citrix Service Provider program, which are invoiced on a monthly basis based on reported license usage. Our services delivered via the cloud are accessed over the Internet for usage during the subscription period. Our hardware appliances come pre-loaded with software for which customers can purchase perpetual licenses and annual support and maintenance.

### Digital Workspace (formerly Workspace Services)

#### Application Virtualization and VDI

Our Application Virtualization and Virtual Desktop Infrastructure, or VDI, solutions give employees the freedom to work from anywhere while cutting IT costs, securely delivering Windows, Linux, Web and SaaS apps, plus full virtual desktops to any device.

Citrix Virtual Apps and Desktops (formerly XenDesktop) is a fully-integrated, cloud-enabled app and desktop virtualization solution that gives customers the flexibility to remotely deliver desktops and applications - from any cloud, on-premises datacenters or both. Citrix Virtual Apps and Desktops include HDX technologies to give users a high-definition experience - even when using multimedia, real-time voice and video collaboration, USB devices and 3D graphics content - while consuming less bandwidth than competing solutions. Citrix Virtual Apps and Desktops is available in multiple editions designed for different requirements, from simple VDI-only deployments to sophisticated, enterprise-class desktop and application delivery services that can meet the needs of everything from basic call center environments to high-powered graphics workstations. With Citrix Virtual Apps and Desktops Advanced and Premium editions - as well as the cloud service - customers also receive Citrix Virtual Apps to manage and mobilize Windows applications.

Citrix Virtual Apps (formerly XenApp) is a widely deployed solution that enables Windows and Linux applications to be remotely delivered to Macs, PCs, thin clients and Android/iOS mobile devices from any cloud, on-premises datacenter or both. Citrix Virtual Apps enable people to work better by running applications in the security of the data center or cloud, and using Citrix HDX technologies to deliver a superior user experience to any device, anywhere. Keeping business applications under the centralized control of IT administrators enhances security and reduces the costs of managing applications on every PC. Exclusively available as a cloud service, on-premises or hybrid solution, it allows customers to choose the deployment option that best aligns with their enterprise cloud strategy. In partnership with Microsoft, Citrix Virtual Apps is designed to embrace and extend Microsoft Remote Desktop technology by providing advanced provisioning, performance, monitoring and management functionality. Our joint solution with Microsoft lowers the cost of delivering and maintaining Windows applications for all users in the

enterprise.

4

---

#### Citrix Endpoint Management (formerly Enterprise Mobility Management)

Increasingly, for many employees, mobile devices are their workspaces. Our Citrix Endpoint Management (formerly XenMobile) solutions are designed to increase productivity and security with mobile device management, or MDM, mobile application management, or MAM, mobile content management, or MCM, secure network gateway, secure email, and enterprise-grade mobile apps in one comprehensive solution.

Citrix Endpoint Management provides unified endpoint management for a secure digital workspace allowing IT to meet mobile device security and compliance requirements for "bring your own device" programs and corporate devices while enabling user productivity. As part of a workspace, Citrix Endpoint Management centralizes the management of mobile devices, traditional desktops, laptops and Internet of Things, or IoT, through a single platform. Citrix Endpoint Management directly integrates with Microsoft EMS/Intune to extend mobility and device management capabilities.

#### Content Collaboration

Our Content Collaboration offering meets the collaboration and mobility needs of users, with scalable data security requirements for small business to the enterprise.

Citrix Content Collaboration (formerly ShareFile) is a secure, cloud-based file sharing and storage solution built for mobile business, giving users enterprise-class data services across all corporate and personal mobile devices, while maintaining total IT control. Citrix Content Collaboration protects data throughout the storage and transfer process, using up to 256-bit encryption and SSL or Transport Layer Security, or TLS, encryption protocols for transfer and 256-bit encryption for files at rest on ShareFile servers. Password protection and granular access to folders and files stored with Citrix Content Collaboration ensure that data remains in control of the company. With Citrix Content Collaboration Enterprise, organizations can manage their data on-premises in customer managed StorageZones, select Citrix managed secure cloud options or create a mix of both to meet the needs for data sovereignty, compliance, performance and costs. For businesses that use multiple storage repositories, Citrix Content Collaboration provides unified access to a wide range of cloud-based and on-premises storage repositories, making it simple and easy for employees to find and access their files and documents. Additionally, Citrix Content Collaboration supports e-signature, feedback and approval workflows that help businesses adopt the mobile, digital office.

#### Citrix Workspace

We offer customers the opportunity to acquire a number of Citrix products through a single comprehensive integrated offering, Citrix Workspace, which includes our Citrix Virtual Apps and Desktops, Citrix Endpoint Management, Citrix Content Collaboration, Citrix Analytics and networking products. Citrix Workspace securely delivers the apps, desktops, branch networking and WAN, enterprise mobility management and data people need for business productivity. We offer one of the industry's most complete and integrated digital workspaces that is streamlined for IT control and easily accessible for users.

Citrix Workspace delivers a unified user experience for any app or desktop on any device, including tablets, smartphones, PCs, Macs or thin clients. IT can securely deliver content over low-bandwidth high-latency WANs, highly variable 3G/4G mobile networks or a reliable corporate LAN to improve end-user experience while offering enterprise-grade security to data and applications. Citrix Workspace provides a unified, flexible solution that can streamline device, application and desktop deployment and lifecycle management to increase employee engagement, productivity, and reduce IT costs. Citrix Workspace offers choice of device, cloud and network and can be deployed on-premises, via the cloud or as a hosted service.

#### Networking

Our Networking products are available via hardware or software-based solutions and allow organizations to deliver apps and data with the security, reliability, and speed trusted by thousands of customers worldwide.

Citrix ADC (formerly NetScaler ADC) is a software-defined application delivery controller designed to meet the demands of organizations undergoing digital transformation. Citrix ADC enables the adoption of hybrid and multi-cloud application delivery with improved application performance, reliability and security at an optimized price point. Citrix ADC allows customers to obtain detailed application analytics with the value of machine learning. It also optimizes application delivery for cloud native application architectures based on the Kubernetes orchestration platform, and provides service graph analytics for efficient troubleshooting within the microservices environment. Additionally, we extend the platform with best-of-breed web application firewall, or WAF, capabilities





that protect web applications and sites from both known and unknown attacks, which include application-layer and zero-day threats.

Citrix SD-WAN (formerly NetScaler SD-WAN) increases the security, performance and reliability of applications delivered from the legacy data center, cloud, or SaaS, while delivering additional value for virtualized applications and desktops. The platform combines routing, security, WAN optimization, and path control to simplify implementation and maintenance of the branch network, allowing customers to adopt a hybrid WAN architecture that effectively increases WAN capacity and manageability.

#### Support

Citrix offers technical support to minimize business downtime for our customers. Several options are available.

Customer Success Services are offered in support of our perpetual software and our cloud-based services. Customers are given a choice of tiered offerings combining product version upgrades, guidance, enablement, support and proactive monitoring to help customers and partners fully realize their business goals and maximize their Citrix investments. Additionally, customers may upgrade to receive personalized support from a dedicated team led by an assigned account manager. Fees associated with this offering are recognized ratably over the term of the contract.

Hardware Maintenance is offered in support of our Networking products. Customers are given a choice of tiered offerings including technical support, software upgrades, and replacement of malfunctioning appliances. Dedicated account management is available as an add-on to the program. Fees associated with this offering are recognized ratably over the term of the contract.

#### Professional Services

We offer a portfolio of professional services to help business partners and customers manage the quality of implementation, operation and support of our solutions. These services are available for additional fees, paid on an annual or transactional basis.

Citrix Consulting guides the successful implementation of Citrix technologies and solutions with proven methodologies, tools and leading practices. Citrix Consulting focuses on strategic engagements with enterprise customers who have complex, mission-critical, or large-scale Citrix deployments. These engagements are typically fee-based engagements for the most challenging projects in terms of scope and complexity, requiring consultants with project methodology qualifications and Citrix expertise. Citrix Consulting is also responsible for developing best practices which are disseminated to businesses, partners and end users through training and written documentation. Leveraging these best practices enables our integration resellers to provide more complex systems, reach new buyers within existing customer organizations, and provide more sophisticated system proposals to prospective customers.

Product Training & Certification enables customers and partners to be successful with Citrix and achieve business objectives faster. Authorized Citrix training is available as needed. Traditional or virtual instructor-led training offerings feature Citrix Certified Instructors delivering Citrix-developed courseware in a classroom or remote setting at one of our Citrix Authorized Learning Centers, or CALCs, worldwide. Self-Paced Online offerings provide technically robust course content without an instructor and include hands-on practice via virtual labs. Certifications validate key skills and are available for administrators, engineers, architects and sales professionals.

#### Customers

We believe that the primary IT buyers involved in decision-making related to our solutions are the following: Strategic IT Executives including chief information officers, chief technology officers, chief information security officers and vice presidents of infrastructure, who have responsibility for ensuring that IT services are enablers to business initiatives and are delivered with the best performance, availability, security and cost.

Desktop Operations Managers who are responsible for managing Windows Desktop environments including corporate help desks.

IT Infrastructure Managers who are responsible for managing and delivering Windows-based applications.

Directors of Messaging and Mobility, who are, respectively, responsible for messaging technologies and defining mobile strategies and solutions for securing and managing mobile devices including their content and applications. Network Architects who are responsible for delivering Web-based applications who have primary responsibility for the WAN infrastructure for all applications.

Server Operations Managers who are responsible for specifying datacenter systems and managing daily operations.  
Small business owners who are responsible for choosing the systems needed to support their business goals, such as SaaS.

Chief technology officer and engineering department (managers and architects, among others) for telecommunications service providers.

Line of business and functional executives that determine the need for our cloud and subscription-based offerings at certain enterprises.

Chief information officer and engineering departments within service providers, using our solutions to deliver desktops and applications as hosted cloud services.

The IT buyers for our solutions include a wide variety of industries including those in financial services, technology, healthcare, education, government and telecom.

#### Technology Relationships

We have a number of technology relationships in place to accelerate the development of existing and future solutions and our go-to-market initiatives. These relationships include cross-licensing, OEM, resell, joint reference architectures, and other arrangements that result in better solutions for our customers.

#### Microsoft

For almost 30 years, Citrix and Microsoft have maintained a strategic partnership spanning product development, go-to-market initiatives and partner development, enabling our mutual customers' secure, high-performance delivery of applications, desktops and data to their employees anywhere, anytime on any device. Together, Citrix and Microsoft offer solutions and services that aid and accelerate the transition from on-premises IT infrastructure and practices to emerging hybrid-cloud and multi-cloud delivery models for the full breadth of legacy and modern applications. These solutions and services include the unique ability to deliver Windows 10 desktops hosted within the Microsoft Azure cloud platform, services to deploy apps directly on Azure, Office 365 and Microsoft Teams integrations, and smart tools to simplify the deployment of a new class of integrated workspaces that include legacy Windows apps and a growing array of popular SaaS applications.

In 2018, we announced a new collaboration agreement to provide customers a simplified experience by enabling them to purchase and deploy Citrix-powered digital workspaces and networking solutions directly within Microsoft Azure. We also announced a number of new services and capabilities to assist organizations in the planning and execution of their cloud migrations and accelerate adoption. We also created the Citrix and Microsoft Cloud Alliance program to provide our joint partners with the resources, training and enablement needed to ensure our customers' success.

#### Google

We continue to build on our five-year partnership with Google through which we bring digital workspace solutions to enterprise customers who are increasingly looking to public and hybrid clouds to address competitive demands and solve business challenges. Our technology integrations provide cloud delivery of Citrix applications and desktops, power management and Citrix ADC with Google Cloud. In 2018, we announced a new Citrix ADC integration that allows developers to take advantage of Google Cloud Platform cloud computing capabilities alongside Citrix load balancing and traffic management features to manage their workloads in a simple, secure and reliable way. We also continue to optimize Citrix Endpoint Management to support Android and Chrome devices, as well as Citrix Workspace App to enable organizations to provision, manage and deliver apps on Chrome devices.

#### Additional Relationships

We have developed our partner ecosystem to enable infrastructure choice for our Citrix Cloud customers. For public cloud choice, we have relationships with Microsoft Azure, Google Cloud, AWS and Oracle. Moreover, in the past year we announced the Citrix Workspace Appliance program to enable a hybrid cloud choice for on-premises solutions. We are also forging partnerships with SaaS providers to deliver cloud access control and intelligent workspaces. In August of 2018, we announced the availability of the Citrix IT Service Management Connector, an offering jointly developed with ServiceNow that reduces the time involved in application and desktop provisioning, and improves the employee experience.

Delivering Secure and Cost-Effective Hybrid Cloud Solutions with Hewlett Packard Enterprise, Cisco, Lenovo and FlexxibleIT

In delivering choice, we recognize that many enterprise customers have significant investments in on-premises infrastructure that continues to serve their financial investments or have regulatory requirements that require data control and governance. Together with our infrastructure partners like Hewlett Packard Enterprise, or HPE, Cisco, Lenovo and FlexxibleIT,

7

---

we provide a simple and fast way to deploy hybrid cloud app and desktop virtualization that is scalable and secure. With Citrix Cloud Services, companies can quickly and cost-effectively create a centrally managed, enterprise-class virtualized app and desktop environment in a rack-mounted appliance and manage VDI as-a-service in the cloud with simple subscription-based pricing. Compute, network and storage are pre-integrated with a Citrix Cloud connection in an easy to use hyper converged infrastructure, or HCI, appliance, and the offering is tested and certified as Citrix Ready, which showcases verified products that are trusted to enhance Citrix solutions for mobility, virtualization, networking and cloud platforms.

We continue to invest in our Global System Integrator partnerships with organizations that have multiple offerings in the market with Citrix Digital Workspace and Citrix Networking solutions, including IBM, DXC, and Fujitsu. In addition, our partners continue to expand their focus on the broad range of our solutions. We also continue to provide an easy way for our customers to locate compatible solutions and our channel partners to evaluate and deploy joint offerings through our Citrix Ready program. Active partners, including Amazon Web Services, Cisco, Google, Microsoft and hundreds of other technology companies, use the Citrix Ready Program to learn about and integrate with Citrix technology across our products for workspace, networking, and analytics with the number of verified products available in the Citrix Ready Marketplace growing over the past year.

#### Research and Development

Our innovation engine continues to advance, and our growth in Citrix Cloud Services has also accelerated our innovation and shortened the time to value for end-users. As of December 31, 2018, we held a worldwide portfolio of 2,725 patents and had an additional 1,126 patent applications pending.

We focus our research and development efforts on developing new cross-portfolio solutions across our Digital Workspaces, Networking and Analytics solutions and services, while continuing to invest in functional improvements to our core market technologies to expand Citrix differentiation and opportunity within each category. We solicit extensive feedback concerning product development from customers, both directly from and indirectly, through our channel distributors and partners. We believe that our global software development teams and our core technologies represent a significant competitive advantage for us. Included in the software development teams are individuals focused on research activities that include prototyping ways to integrate emerging technologies and standards into our product offerings. We incurred research and development expenses of \$440.0 million in 2018, \$415.8 million in 2017 and \$395.4 million in 2016.

#### Sales, Marketing and Services

We market and license our solutions through multiple channels worldwide, including selling through resellers, direct and over the Web. Our partner community comprises thousands of value-added resellers known as Citrix Solution Advisors, VADs, SIs, ISVs, OEMs, and CSPs. Distribution channels are managed by our worldwide sales and services organization. Partners receive training and certification opportunities to support our portfolio of solutions and services.

We reward our partners that identify new business, and provide sales expertise, services delivery, customer education, technical implementation and support of our portfolio of solutions through our incentive program. We continue to focus on increasing the productivity of our existing partners, while also adding new transacting partners, building capacity through targeted recruitment, introducing programs to increase partner mindshare, limit channel conflict and increase partner loyalty to us.

As we lead with the cloud, we have been cultivating a global base of technology partners within our CSP program. Our CSP program provides subscription-based services in which the CSP partners host software services to their end users. Our CSP partners, consisting of managed service providers, ISVs, Citrix Solution Advisors, hosting providers and telcos, among others, license our desktop, application, networking and enterprise mobility management solutions on a monthly consumption basis. With our software, these partners then create differentiated offers of their own, consisting of cloud-hosted applications and cloud-hosted desktops, which they manage for various customers, ranging from SMBs to enterprise IT. Besides supplying technology, we are actively engaged in assisting these partners in developing their hosted businesses either within their respective data centers or leveraging public cloud infrastructure by supplying business and marketing assistance.

Engagement with SIs and ISVs continues to be a substantial part of our strategic roadmap within large enterprise and government markets. Our integrator partnerships include organizations such as Atos, Accenture, Avanade, Capgemini,

Dimension Data, DXC, Fujitsu, IBM Global Services, TCS and Wipro, who all deliver consultancy or global offerings powered by the Citrix Workspace. The ISV program maintains a strong representation across targeted industry verticals including healthcare, financial services and telecommunications. Members in the ISV program include Allscripts, Cerner Corporation, Epic Systems Corporation and McKesson Corporation, among several others. For all of our channels, we regularly take actions to improve the effectiveness of our partner programs and further strengthen our channel relationships through management of

8

---

non-performing partners, recruitment of partners with expertise in selling into new markets and forming additional strategic global and national partnerships.

Our corporate marketing organization provides an integrated global approach to sales and industry event support, digital and social marketing, sales enablement tools and collateral, advertising, direct mail, industry analyst relations and public relations coverage to market our solutions. Our efforts in marketing are focused on generating leads for our sales organization and our indirect channels to acquire net new accounts and expand our presence with existing customers. Our partner development organization actively supports our partners to improve their commitment and capabilities with Citrix solutions. Our customer sales organization consists of field-based sales engineers and corporate sales professionals who work directly with our largest customers, and coordinate integration services provided by our partners. Additional sales personnel, working in central locations and in the field, provide support including recruitment of prospective partners and technical training with respect to our solutions.

In fiscal year 2018, one distributor, the Arrow Group, accounted for 14%, of our total net revenues. In fiscal year 2017 and 2016, two distributors, Ingram Micro and Arrow, accounted for 13% and 12%, respectively, of our total net revenues. Our distributor arrangements with Ingram Micro and Arrow consist of several non-exclusive, independently negotiated agreements with its subsidiaries, each of which covers different countries or regions. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates” and Note 2 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for information regarding our revenue recognition policy.

International revenues (sales outside the United States) accounted for approximately 47.0% of our net revenues for the year ended December 31, 2018, 46.3% of our net revenues for the year ended December 31, 2017 and 46.3% of our net revenues for the year ended December 31, 2016. For detailed information on our 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, 2018.

#### Segment Revenue

We operate under one reportable segment. For additional information, see Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018.

#### Operations

For our cloud-based solutions, we use a combination of co-located hosting facilities and increasingly Microsoft Azure and Amazon Web Services as well as other infrastructure-as-a-service providers. For our Networking products, which include Citrix ADC, we use independent contractors to provide a redundant source of manufacture and assembly capabilities. Independent contractors provide us with the flexibility needed to meet our product quality and delivery requirements. We have manufacturing relationships that we enter into in the ordinary course of business, primarily with Flextronics under which we have subcontracted the majority of our hardware manufacturing activity, generally on a purchase order basis. These third-party contract manufacturers also provide final test, warehousing and shipping services. This subcontracting activity extends from prototypes to full production and includes activities such as material procurement, final assembly, test, control, shipment to our customers and repairs. Together with our contract manufacturers, we design, specify and monitor the tests that are required to meet internal and external quality standards. Our contract manufacturers manufacture our products based on forecasted demand for our solutions. Each of the contract manufacturers procures components necessary to assemble the products in our forecast and test the products according to our specifications. We are dual-sourced on our components, however, in some instances, those sources may be located in the same geographic area. Accordingly, if a natural disaster occurred in one of those areas, we may need to seek additional sources. Products are then shipped to our distributors, VARs or end-users. If the products go unsold for specified periods of time, we may incur carrying charges or obsolete material charges for products ordered to meet our forecast or customer orders. In 2018, we did not experience any material difficulties or significant delays in the manufacture and assembly of our products.

We are responsible for all purchasing, inventory, scheduling, order processing and accounting functions related to our operations. For our software products, production, warehousing and shipping are performed by our independent contractors HPE, Ireland and Digital River. Master software, development of user manuals, packaging designs, initial product quality control and testing are primarily performed at our facilities. In some cases, independent contractors also duplicate master software, print documentation and package and assemble products to our specifications.



While it is generally our practice to promptly ship our products upon receipt of properly finalized orders, at any given time, we have confirmed product license orders that have not shipped and are unfulfilled. We refer to those unfulfilled product license orders at the end of a given period as “product and license backlog.” As of December 31, 2018 and 2017, the amount of

9

---

product and license backlog was not material. We do not believe that backlog, as of any particular date, is a reliable indicator of future performance.

We believe that our fourth quarter revenues and expenses are affected by a number of seasonal factors, including the lapse of many corporations' fiscal year budgets and an increase in amounts paid pursuant to our sales compensation plans due to compensation plan accelerators that are often triggered in the fourth quarter. We believe that these seasonal factors are common within our industry. Such factors historically have resulted in first quarter revenues in any year being lower than the immediately preceding fourth quarter. We expect this trend to continue through the first quarter of 2019. In addition, our European operations generally generate lower revenues in the summer months because of the generally reduced economic activity in Europe during the summer. This seasonal factor also typically results in higher fourth quarter revenues on a sequential basis.

#### Competition

We sell our solutions in intensely competitive markets. Some of our competitors and potential competitors have significantly greater financial, technical, sales and marketing and other resources than we do. As the markets for our solutions and services continue to develop, additional companies, including those with significant market presence in the computer appliances, software, cloud services and networking industries, could enter the markets in which we compete and further intensify competition. In addition, we believe price competition could become a more significant competitive factor in the future. As a result, we may not be able to maintain our historic prices and margins, which could adversely affect our business, results of operations and financial condition. See "Technology Relationships" and Part I-Item 1A entitled "Risk Factors" included in this Annual Report on Form 10-K for the year ended December 31, 2018.

#### Digital Workspace

Our Application Virtualization and VDI solutions are based on a proprietary technology platform, the success of which will depend on organizations and customers perceiving technological, operational and security benefits and cost savings associated with adopting desktop and application virtualization solutions. We differentiate our platform from basic virtualization solutions with robust security, higher flexibility and better end user experience to enable IT to deliver Windows and Linux apps and desktops for better business outcomes. Citrix also provides a hardened browser integrated into a web/SaaS access control solution. This enables customers to tightly control how web and SaaS applications are consumed by their users and prevents information leakage. Integration between Secure Web Gateway and Secure Browser Service provides customers with a protective layer between the internet and their secure internal network. Citrix Analytics is a user behavior analytics solution focused on the digital workspace. We also differentiate ourselves from other vendors because we are the only one to offer unified management for all components of the digital workspace that uniquely addresses the needs of on-premises, cloud or hybrid deployments. We also face numerous competitors that provide automation of these processes and approaches, including VMware's Horizon product and the emergence of virtual applications and desktop delivery from public and private cloud services, including Amazon Web Service's product Amazon WorkSpaces. Also, there continues to be an increase in the number of alternatives to Windows-based applications and Windows operating system powered desktops, particularly in SaaS-delivered applications and mobile devices, such as smartphones and tablets. We believe Citrix Virtual Apps and Desktops give us a competitive advantage by providing customers multiple ways to virtualize and deliver desktops and/or apps with a single integrated virtualization system and delivering a higher performance user experience, more robust security and the flexibility for people to use any device and IT to use any infrastructure, public or private clouds, hyper-converged, traditional servers and storage, or combinations of each.

Our unified endpoint management solution line, Citrix Endpoint Management, competes with companies including AirWatch by VMware, MobileIron, BlackBerry and many other competitors. We believe we differentiate ourselves from these competitors by providing a complete solution, with MDM, MAM and superior core mobile productivity applications, including secure mobile email, calendar, browser, and editing along with integration with Microsoft's EMS mobility management platform and Microsoft Intune. With Citrix Endpoint Management, we also provide robust security and mobile productivity applications that have the deepest and most user friendly integration with Microsoft Office 365. Our apps feature unique workflow integrations designed to make people work better, a significant advantage over competitors that do not focus on the end user experience and either have basic applications or rely on third parties to deliver similar integrations.

We also see competition from competitors that are combining mobile and desktop technologies. We believe our solution, Citrix Workspace, is one of the best solutions available today that can securely deliver a secure digital workspace - with any Windows, Linux, Web, SaaS and native mobile applications, data and virtual desktops - to any device, anywhere. For example, VMware offers the VMware Workspace Suite and more recently introduced VMware Workspace ONE. We expect other vendors to follow suit. We offer market-leading technologies for every component of the Citrix Workspace. Furthermore, we

believe that our end-user experience is a competitive edge when compared to the alternative solutions due to the integration, intuitiveness and self-service features of our offerings.

In the content collaboration space, our Citrix Content Collaboration solution's direct competition includes Dropbox, Box, Syncplicity, Egnyte, Inc., BlackBerry's Watchdox, Accellion, and Google, as well as legacy solutions such as traditional file transfer protocol, or FTP. Many of these competitors have strong brand recognition through consumer and free versions of their products. However, we believe Citrix Content Collaboration offers a superior solution for businesses as it is built specifically for the needs of the business. Our solutions are further differentiated through our ability to store data on-premise or in the Cloud, integration into Citrix Workspace, collaboration with external parties at no additional cost, and the ability to create workflows, eSignatures, and custom forms. Integration into Citrix Analytics for a holistic workspace-centric user behavior analysis, and the ability to connect Citrix Content Collaboration to existing storage repositories are additional key differentiators.

#### Networking

Our Citrix ADC hardware products compete in traditional data-center-deployed application environments against other established competitors, including F5 Networks, Inc., Dell, Inc., KEMP Technologies, Inc., Fortinet Inc., Radware, A10 Networks, Broadcom, Array Networks, Inc., and AVI Networks, Inc. In addition, with new cloud-integrated and software centric use cases, large cloud providers, such as Amazon Web Services and Microsoft Azure, provide customers with competitive ADC solutions built into their public cloud platforms. The ADC segment also includes a number of emerging start-up and open source software-based companies, such as HA PROXY Technologies, LLC. and NGINX, Inc., which generally focus on developers rather than enterprise customers. We continue to enhance Citrix ADC's feature capability and invest in go-to-market resources to market Citrix ADC to our existing customer base and new potential customers.

Our Citrix SD-WAN product competes against both traditional WAN optimization and infrastructure vendors, such as Riverbed, VMware, Cisco, Silver Peak Systems and Oracle. Additionally, WAN service providers are integrating and reselling SD-WAN products as a part of their service offering from vendors including VMware, Cisco, Riverbed and Versa Networks, Inc. We have partnered with Microsoft to provide SD-WAN capability into Azure as a part of the Azure Virtual WAN.

#### Technology and Intellectual Property

Innovation is a core Citrix competency. We have developed many innovations that are important enablers of our continued leadership. Our success is dependent upon our solutions, which are based on intellectual property and core proprietary and open source technologies. These technologies include innovations that optimize the end-to-end user experience in virtual desktop and virtual application environments, enhance networking capabilities and deliver a holistic mobile computing experience.

We have been awarded numerous domestic and foreign patents and have numerous pending patent applications in the United States and foreign countries. Our technology is also protected under copyright laws. Additionally, we rely on trade secret protection and confidentiality and proprietary information agreements to protect our proprietary technology. We have established proprietary trademark rights in markets across the globe, and own hundreds of U.S. and foreign trademark registrations and pending registration applications for marks comprised of or incorporating the Citrix name. See our "Research and Development" discussion above and Part I-Item 1A entitled "Risk Factors" included in this Annual Report on Form 10-K for the year ended December 31, 2018.

#### Available Information

Our Internet address is <http://www.citrix.com>. We make available, free of charge, on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. The information on our website is not part of this Annual Report on Form 10-K for the year ended December 31, 2018.

#### Employees

As of December 31, 2018, we had approximately 8,200 employees. We believe our relations with employees are good. In certain countries outside the United States, our relations with employees are governed by labor regulations that provide for specific terms of employment between our company and our employees.



## ITEM 1A. RISK FACTORS

Our operating results and financial condition have varied in the past and could in the future vary significantly depending on a number of factors. From time to time, information provided by us or statements made by our employees contain “forward-looking” information that involves risks and uncertainties. In particular, statements contained in this Annual Report on Form 10-K for the year ended December 31, 2018, and in the documents incorporated by reference into this Annual Report on Form 10-K for the year ended December 31, 2018, that are not historical facts, including, but not limited to, statements concerning our strategy and operational and growth initiatives, our transition to a subscription-based business model, product development and offerings of solutions and services, market branding and positioning, distribution and sales channels, our partners and other strategic or technology relationships, financial information and results of operations for future periods, competition, seasonal factors, stock-based compensation, licensing and subscription renewal programs, international operations and expansion, investment transactions and valuations of investments and derivative instruments, restructuring charges, reinvestment or repatriation of foreign earnings, fluctuations in foreign exchange rates, tax estimates and other tax matters, liquidity, stock repurchases and dividends, our debt, changes in accounting rules or guidance, changes in domestic and foreign economic conditions, acquisitions, litigation matters and intellectual property matters, constitute forward-looking statements and are made under the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are neither promises nor guarantees. Our actual results of operations and financial condition could vary materially from those stated in any forward-looking statements. The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Annual Report on Form 10-K for the year ended December 31, 2018, in the documents incorporated by reference into this Annual Report on Form 10-K or presented elsewhere by our management from time to time. Such factors, among others, could have a material adverse effect upon our business, results of operations and financial condition. We caution readers not to place undue reliance on any forward-looking statements, which only speak as of the date made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

### RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Our transition from a perpetual licenses to a subscription-based business model and from on-premises software to cloud-delivered services is subject to numerous risks and uncertainties.

The focus of our business model is shifting away from sales of perpetual licenses to sales of subscriptions.

Additionally, we expect our customers will increasingly rely on our cloud-delivered services instead of on-premises deployments. This transition may give rise to a number of risks, including the following:

- we may not be able to effectively or efficiently transition our customers from consuming our solutions and services as on premises solutions to cloud-based solutions;
- we may not be able to implement effective go-to-market strategies and train or properly incentivize our sales team and channel partners in order to effectively market our subscription offerings;
- we may be unsuccessful in maintaining our target pricing, adoption and renewal rates;
- we may select solution prices that are not optimal and could negatively affect our sales or earnings;
- we may incur costs at a higher than forecasted rate as we expand our cloud-delivered services thereby decreasing our gross margins;
- we may experience unpredictability in revenue as a result of usage fluctuations within our cloud service provider business;
- we may not be able to meet customer demand or solution requirements for cloud-delivered services;
- we may encounter customer concerns regarding changes to pricing, service availability, and security; and
- our cloud-delivered services are primarily operated through third party data centers, which we do not control and which may be vulnerable to damage, interruption and cyber-related risks.

As we transition our customers from perpetual licenses to subscriptions, we expect an impact on the timing of revenue recognition and a potential reduction of cash flows. Because subscription revenue is typically recognized over time, we may experience a near-term reduction in revenue and revenue growth as more customers move away from perpetual licenses to subscriptions.

Our subscription-based business model and expansion of our cloud-delivered services may also require a considerable investment in resources, including technical, financial, legal, sales, information technology and operation systems. Market acceptance of such offerings is affected by a variety of factors, including but not limited to: security, reliability, scalability, customization, performance, current license terms, customer preference, customer concerns with entrusting a third party to store and manage their data, public concerns regarding privacy and the enactment of restrictive laws or regulations.

In addition, the metrics we use to gauge the status of our business may evolve over the course of the transition as significant trends emerge. If we are unable to successfully establish our subscription-based business model or expand our cloud-delivered services, and navigate our transition in light of the foregoing risks and uncertainties, our business, results of operations and financial condition could be negatively impacted.

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

The markets for our solutions and services are characterized by:

- rapid technological change;
- evolving industry standards;
- fluctuations in customer demand;
- changing customer business models and increasingly sophisticated customer needs; and
- frequent new solution and service introductions and enhancements.

The demand for our solutions and services depends substantially upon the general demand for business-related computer appliances and software, which fluctuates based on numerous factors, including capital spending levels, the spending levels and growth of our current and prospective customers, and general economic conditions. As we continue to grow our subscription service offerings, we must continue to innovate and develop new solutions and features to meet changing customer needs. Our failure to respond quickly to technological developments or customers' increasing technological requirements could lower the demand for any solutions and services and/or make our solutions uncompetitive and obsolete. Moreover, the purchase of our solutions and services is often discretionary and may involve a significant commitment of capital and other resources. We need to continue to develop our skills, tools and capabilities to capitalize on existing and emerging technologies, which will require us to devote significant resources.

U.S. economic forecasts for the information technology, or IT, sector are uncertain and continue to highlight an industry in transition from legacy platforms to mobile, cloud, data analytics and social solutions. If our current and prospective customers cut costs, they may significantly reduce their information technology expenditures.

Additionally, if our current and prospective customers shift their IT spending more rapidly towards newer technologies and solutions as mobile, cloud, data analytics and social platforms evolve, the demand for our solutions and services most aligned with legacy platforms (such as our desktop virtualization solutions) could decrease.

Fluctuations in the demand for our solutions and services could have a material adverse effect on our business, results of operations and financial condition.

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

We sell our solutions and services in intensely competitive markets. Some of our competitors and potential competitors have significantly greater financial, technical, sales and marketing and other resources than we do. We compete based on our ability to offer to our customers the most current and desired solution and services features. We expect that competition will continue to be intense, and there is a risk that our competitors' products may be less costly, more heavily discounted or free, provide better performance or include additional features when compared to our solutions. Additionally, there is a risk that our solutions may become outdated or that our market share may erode. Further, the announcement of the release, and the actual release, of new solutions incorporating similar features to our solutions could cause our existing and potential customers to postpone or cancel plans to license certain of our existing and future solution and service offerings. Existing or new solutions and services that provide alternatives to our solutions and services could materially impact our ability to compete in these markets. As the markets for our solutions and services, especially those solutions in early stages of development, continue to develop, additional companies, including companies with significant market presence in the computer hardware, software, cloud, networking, mobile, data sharing and related industries, could enter, or increase their footprint in, the markets in which we compete and further intensify competition. In addition, we believe price competition could become a more significant competitive factor in the future. As a result, we may not be able to maintain our historic prices and margins, which could adversely affect our business, results of operations and financial condition.

We expect to continue to face additional competition as new participants enter our markets and as our current competitors seek to increase market share. Further, we may see new and increased competition in different geographic regions. The generally low barriers to entry in certain of our businesses increase the potential for challenges from new



industry competitors, whether small and medium sized businesses or larger, more established companies. Smaller companies new to our market may have more flexibility to develop on more agile platforms and have greater ability to adapt their strategies and cost structures, which may give them a competitive advantage with our current or prospective customers. We may also experience increased competition from new types of solutions as the options for Digital Workspace and Networking offerings increase. Further, as our industry evolves and if our company grows, companies with which we have strategic alliances may become competitors in other product areas, or our current competitors may enter into new strategic relationships with new or existing competitors, all of which may further increase the competitive pressures we face.

A significant portion of our revenues historically has come from our Application Virtualization and VDI solutions and our Networking products, and decreases in sales for these solutions could adversely affect our results of operations and financial condition.

A significant portion of our revenues has historically come from our Application Virtualization and VDI solutions and Networking products. We continue to anticipate that sales of these solutions and products and related enhancements and upgrades will constitute a majority of our revenue for the near future. Declines and variability in sales of certain of these solutions and products could occur as a result of:

- new competitive product releases and updates to existing products delivered as on premises solutions, especially cloud-based products;
- industry trend to focus on the secure delivery of applications on mobile devices;
- introduction of new or alternative technologies, products or service offerings by third parties;
- termination or reduction of our product offerings and enhancements;
- potential market saturation;
- failure to enter new markets;
- price and product competition resulting from rapid and frequent technological changes and customer needs;
- general economic conditions;
- complexities and cost in implementation;
- failure to deliver satisfactory technical support;
- dissatisfied customers; or
- lack of commercial success of our technology relationships.

We have experienced increased competition in the Application Virtualization and VDI business from directly competing solutions, alternative products and products on new platforms. For example, Amazon Web Services provides Amazon WorkSpaces and VMware provides Horizon, both of which compete with these offerings among numerous other competitors. Also, there continues to be an increase in the number of alternatives to Windows operating system powered desktops, in particular mobile devices such as smartphones and tablets. Users may increasingly turn to these devices to perform functions that would have been traditionally performed on desktops and laptops, which in turn may reduce the market for our Application Virtualization and VDI solutions. Further, increased use of certain SaaS applications may result in customers relying less on Windows applications. If sales of our Application Virtualization and VDI solutions decline as a result of these or other factors, our revenue would decrease and our results of operations and financial condition would be adversely affected.

Similarly, we have experienced increased competition for our Networking products, including our core Citrix ADC solution. For example, there are an increasing number of alternatives to traditional ADC hardware solutions, enabling our customers to build internal solutions, rely on open source technology or leverage software and cloud-based offerings. In addition, our Networking business generates a substantial portion of its revenues from a limited number of customers with uneven and declining purchasing patterns. As a result, the potential for declining sales within our Networking business may not be offset by gains in other areas of our Networking and other businesses, which could result in our operations and financial condition being adversely affected.

Our growth prospects depend on increasing the number of users within our customer base, as well as attracting new customers.

We believe that our penetration into our existing customer base is limited and that we have an opportunity to expand the pool of the available users of our solutions. This represents a longer-term opportunity to both expand within our installed base and to attract new customers. There are no guarantees, however, that we will be able to capitalize on this opportunity if we do not innovate and expand the set of potential users, or otherwise attract customer interest and adoption. If we are unable to expand the number of users within our customer base or unable to attract new customers, our revenue would decrease and our results of operations and financial condition would be adversely affected.

In order to be successful, we must attract, engage, retain and integrate key employees and have adequate succession plans in place, and failure to do so could have an adverse effect on our ability to manage our business.

Our success depends, in large part, on our ability to attract, engage, retain, and integrate qualified executives and other key employees throughout all areas of our business. Identifying, developing internally or hiring externally, training

and retaining highly-skilled managerial, technical, sales and services, finance and marketing personnel are critical to our future, and competition for experienced employees can be intense. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash- and equity-based compensation. If we do not obtain the stockholder approval needed to continue granting equity compensation in a competitive manner, our ability to attract, retain, and motivate executives and key employees could be weakened. Failure to successfully

hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations. Competition for qualified personnel in our industry is intense because of the limited number of people available with the necessary technical skills and understanding of solutions in our industry. The loss of services of any key personnel, the inability to retain and attract qualified personnel in the future or delays in hiring may harm our business and results of operations.

Effective succession planning is also important to our long-term success. We have experienced significant changes in our senior management team over the past several years, including the appointments of David J. Henshall as our President and Chief Executive Officer in 2017 and Andrew Del Matto as our Executive Vice President and Chief Financial Officer in 2018. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution. Further, changes in our management team may be disruptive to our business, and any failure to successfully integrate key new hires or promoted employees could adversely affect our business and results of operations.

Industry volatility and consolidation may result in increased competition.

The industry has been volatile and there has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue, especially in light of the increased availability of domestic cash resulting from the Tax Cuts and Jobs Act. In addition, we expect companies will attempt to strengthen or hold their market positions in an evolving and volatile industry. For example, some of our competitors have made acquisitions or entered into partnerships or other strategic relationships to offer a more comprehensive solution than they had previously offered. Further, some companies are making plans or may be under pressure by stockholders to divest businesses and such divestitures may result in stronger competition. Additionally, as IT companies attempt to strengthen or maintain their market positions in the evolving digital workspace services, networking and data sharing markets, these companies continue to seek to deliver comprehensive IT solutions to end users and combine enterprise-level hardware and software solutions that may compete with our Digital Workspace and Networking solutions. These consolidators or potential consolidators may have significantly greater financial, technical and other resources and brand loyalty than we do, and may be better positioned to acquire and offer complementary solutions and services. The companies resulting from these possible combinations may create more compelling solution and service offerings and be able to offer greater pricing flexibility or sales and marketing support for such offerings than we can. These heightened competitive pressures could result in a loss of customers or a reduction in our revenues or revenue growth rates, all of which could adversely affect our business, results of operations and financial condition.

Actual or perceived security vulnerabilities in our solutions and services or cyberattacks on our networks could have a material adverse impact on our business, results of operations and financial condition.

Use of our solutions and services may involve the transmission and/or storage of data, including in certain instances customers' business, financial and personal data. Thus, maintaining the security of our solutions, computer networks and data storage resources is important as security breaches could result in solution or service vulnerabilities and loss of and/or unauthorized access to confidential information. We aim to engineer secure solutions and services, enhance security and reliability features in our solutions and services, deploy security updates to address security vulnerabilities and seek to respond to known security incidents in sufficient time to minimize any potential adverse impact. We have in the past, and may in the future, discover vulnerabilities in our solutions or underlying technology, which could expose our operations and our customers to risk until such vulnerabilities are addressed. In addition, to the extent we are diverting our resources to address and mitigate these vulnerabilities, it may hinder our ability to deliver and support our solutions and customers in a timely manner.

As a more general matter, unauthorized parties may attempt to misappropriate or compromise our confidential information or that of third parties, create system disruptions, product or service vulnerabilities or cause shutdowns. These perpetrators of cyberattacks also may be able to develop and deploy viruses, worms, malware and other malicious software programs that directly or indirectly attack our products, services or infrastructure (including third party cloud service providers -- such as Microsoft Azure and Amazon Web Services and Google Cloud Platform - upon which we rely). Because techniques used by these perpetrators to sabotage or obtain unauthorized access to our systems change frequently and generally are not recognized until long after being launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Despite our efforts to build secure services, we can make no assurance that we will be able to detect, prevent, timely and adequately address, or

mitigate the negative effects of cyberattacks or other security breaches. For example, in late 2018, our file sync and sharing service was the target of a “credential stuffing” attack, in which we believe that malicious third-party actors used credentials obtained from breaches unrelated to any Citrix service to attempt to gain access to individual Citrix Content Collaboration customer accounts. To date, we believe the event had limited impact on a small percentage of Citrix Content Collaboration customers; however, these types of attacks have the potential to materially and adversely impact our customers and, as a result, our results of operations and financial condition.

A breach of our security measures as a result of third-party action, malware, employee error, malfeasance or otherwise could result in (among other consequences):

• loss or destruction of customer data;

• interruption in the delivery of our cloud services;

• negative publicity and harm to our reputation or brand, which could lead some customers to seek to cancel subscriptions, stop using certain of our solutions or services, reduce or delay future purchases of our solutions or services, or use competing solutions or services;

• individual and/or class action lawsuits, which could result in financial judgments against us or the payment of settlement amounts, which would cause us to incur legal fees and costs;

• regulatory enforcement action under the General Data Protection Regulation or other legal authority, which could result in significant fines and/or penalties or other sanctions and which would cause us to incur legal fees and costs; and/or

• in the event that we or one of our customers were the victim of a cyberattack or other security breach, additional costs associated with responding to such breach, such as investigative and remediation costs, and the costs of providing data owners or others with notice of the breach, legal fees, costs of any additional fraud detection activities required by such customers' credit card issuers, and costs incurred by credit card issuers associated with the compromise and additional monitoring of systems for further fraudulent activity.

Any of these actions could materially adversely impact our business, results of operations and financial condition.

Regulation of privacy and data security may adversely affect sales of our solutions and result in increased compliance costs.

We believe increased regulation is likely with respect to the solicitation, collection, processing or use of personal, financial and consumer information as regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection, privacy and data security. This includes the California Consumer Privacy Act, which is set to come into effect in 2020, and the Global Data Protection Regulation, or GDPR. The GDPR is a new European Union-wide legal framework to govern data collection, use and sharing and related consumer privacy rights, which became effective in May 2018. The GDPR includes significant penalties for non-compliance. In addition, the interpretation and application of consumer and data protection laws and industry standards in the United States, Europe and elsewhere are often uncertain and in flux. The application of existing laws to cloud-based solutions is particularly uncertain and cloud-based solutions may be subject to further regulation, the impact of which cannot be fully understood at this time. Moreover, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data and privacy practices. For example, although the GDPR will apply across the European Union without a need for local implementing legislation, local data protection authorities will still have the ability to interpret the GDPR through so-called opening clauses, which permit region-specific data protection legislation and have the potential to create inconsistencies on a country-by-country basis. In addition to the possibility of fines, application of these laws in a manner inconsistent with our data and privacy practices could result in an order requiring that we change our data and privacy practices, which could have an adverse effect on our business and results of operations. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. Also, any new regulation, or interpretation of existing regulation, imposing greater fees or taxes or restricting information exchange over the Web, could result in a decline in the use and adversely affect sales of our solutions and our results of operations. Finally, as a technology vendor, our customers will expect that we can demonstrate compliance with current data privacy and security regulation, and our inability to do so may adversely impact sales of our solutions and services to certain customers, particularly customers in highly-regulated industries.

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

Despite significant testing by us and by current and potential customers, our products, especially new products or releases or acquired products, could contain errors. In some cases, these errors may not be discovered until after commercial shipments have been made. Errors in our products could delay the development or release of new products and could adversely affect market acceptance of our products. Additionally, our products depend on

third-party products, which could contain defects and could reduce the performance of our products or render them useless. Because our products are often used in mission-critical applications, errors in our products or the products of third parties upon which our products rely could give rise to warranty or other claims by our customers, which may have a material adverse effect on our business, financial condition and results of operations.

Certain of our offerings have sales cycles which are long and/or unpredictable which could cause significant variability and unpredictability in our revenue and operating results for any particular period.

Generally, a substantial portion of our large and medium-sized customers implement our Digital Workspace solutions on a departmental or enterprise-wide basis. We have a long sales cycle for these departmental or enterprise-wide sales because:

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

Our long sales cycle for these solutions makes it difficult to predict when these sales will occur, and we may not be able to sustain these sales on a predictable basis. In addition, the long sales cycle for these solutions makes it difficult to predict the quarter in which sales will occur. Delays in sales could cause significant variability in our revenue and operating results for any particular period, and large projects with significant IT components may fail to meet our customers' business requirements or be canceled before delivery, which likewise could adversely affect our revenue and operating results for any particular period.

Overall, the timing of our revenue is difficult to predict. Our quarterly sales have historically reflected an uneven pattern in which a disproportionate percentage of a quarter's total sales occur in the last month, weeks and days of each quarter. In addition, our business is subject to seasonal fluctuations and such fluctuations are generally most significant in our fourth fiscal quarter, which we believe is due to the impact on revenue from the availability (or lack thereof) in our customers' fiscal year budgets and an increase in expenses resulting from amounts paid pursuant to our sales compensation plans as performance milestones are often triggered in the fourth quarter. We believe that these seasonal factors are common within our industry. In addition, our European operations generally generate lower revenues in the summer months because of the generally reduced economic activity in Europe during the summer. Our success depends on our ability to attract and retain and further access large enterprise customers.

We must retain and continue to expand our ability to reach and access large enterprise customers by adding effective value-added distributors, or VADs, system integrators, or SIs, and other partners, as well as expanding our direct sales teams and consulting services. Our inability to attract and retain large enterprise customers could have a material adverse effect on our business, results of operations and financial condition. Large enterprise customers usually request special pricing and purchase of multiple years of subscription and maintenance up-front and generally have longer sales cycles. By allowing these customers to purchase multiple years of subscription or maintenance up-front and by granting special pricing, such as bundled pricing or discounts, to these large customers, we may have to defer recognition of some or all of the revenue from such sales. This deferral, compounded with the longer sales cycles, could reduce our revenues and operating profits for a given reporting period and make revenues difficult to predict. Changes to our licensing or subscription renewal programs, or bundling of our solutions, could negatively impact the timing of our recognition of revenue.

We continually re-evaluate our licensing programs and subscription renewal programs, including specific license models, delivery methods, and terms and conditions, to market our current and future solutions and services. We could implement new licensing programs and subscription renewal programs, including promotional trade-up programs or offering specified enhancements to our current and future solution and service lines. Such changes could result in deferring revenue recognition until the specified enhancement is delivered or at the end of the contract term as opposed to upon the initial shipment or licensing of our software solution. We could implement different licensing models in certain circumstances, for which we would recognize licensing fees over a longer period, including offering additional solutions in a SaaS model. Changes to our licensing programs and subscription renewal programs, including the timing of the release of enhancements, upgrades, maintenance releases, the term of the contract, discounts, promotions, auto-renewals and other factors, could impact the timing of the recognition of revenue for our



solutions, related enhancements and services and could adversely affect our operating results and financial condition. Further, companies that we acquire may operate with different cost and margin structures, which could further cause fluctuations in our operating results and adversely affect our operating margins. Moreover, if our quarterly financial results or

our predictions of future financial results fail to meet the expectations of securities analysts and investors, our stock price could be negatively affected.

Sales and renewals of our support solutions constitute a large portion of our deferred revenue.

We anticipate that sales and renewals of our support solutions will continue to constitute a substantial portion of our deferred revenue. Our ability to continue to generate both recognized and deferred revenue from our support solutions will depend on our customers continuing to perceive value in automatic delivery of our software upgrades and enhancements. Additionally, a decrease in demand for our support solutions could occur as a result of a decrease in demand for our Digital Workspace and Networking solutions. If our customers do not continue to purchase our support solutions, our deferred revenue would decrease significantly and our results of operations and financial condition would be adversely affected.

Adverse changes in general global economic conditions could adversely affect our operating results.

As a globally operated company, we are subject to the risks arising from adverse changes in global economic and market conditions. Economic uncertainty and volatility in our significant geographic locations, including the potential impact resulting from "Brexit", a US-China trade war or other international trade disputes, may adversely affect sales of our solutions and services and may result in longer sales cycles, slower adoption of technologies and increased price competition. For example, if the U.S. or the European Union countries were to experience an economic downturn, these adverse economic conditions could contribute to a decline in our customers' spending on our solutions and services. Additionally, in response to economic uncertainty, we expect that many governmental organizations that are current or prospective customers for our solutions and services would cutback spending significantly, which would reduce the amount of government spending on IT and demand for our solutions and services from government organizations. Adverse economic conditions also may negatively impact our ability to obtain payment for outstanding debts owed to us by our customers or other parties with whom we do business.

Our international presence subjects us to additional risks that could harm our business.

We conduct significant sales and customer support, development and engineering operations in countries outside of the United States. During the year ended December 31, 2018, we derived 47.0% of our revenues from sales outside the United States. Potential growth and profitability could require us to further expand our international operations. To successfully maintain and expand international sales, we may need to establish additional foreign operations, hire additional personnel and recruit additional international resellers. Our international operations are subject to a variety of risks, which could adversely affect the results of our international operations. These risks include:

- compliance with foreign regulatory and market requirements;
- variability of foreign economic, political, labor conditions and global policy uncertainty;
- changing restrictions imposed by regulatory requirements, tariffs or other trade barriers or by U.S. export laws;
- regional data privacy laws that apply to the transmission of our customers' data across international borders;
- health or similar issues such as pandemic or epidemic;
- difficulties in staffing and managing international operations;
- longer accounts receivable payment cycles;
- potentially adverse tax consequences;
- difficulties in enforcing and protecting intellectual property rights;
- compliance with the Foreign Corrupt Practices Act, including potential violations by acts of agents or other intermediaries;
- burdens of complying with a wide variety of foreign laws; and
- as we generate cash flow in non-U.S. jurisdictions, if required, we may experience difficulty transferring such funds to the U.S. in a tax efficient manner.

We are also monitoring developments related to the decision by the British government to leave the European Union (EU) following a referendum in June 2016 in which voters in the United Kingdom approved an exit from the EU (often referred to as "Brexit"), which could have implications for our business. In March 2017, the United Kingdom began the official process to leave the EU by April 2019. There remains considerable uncertainty around the withdrawal. Failure to obtain parliamentary approval of any negotiated withdrawal agreement would mean that the United Kingdom would leave the European Union on March 29, 2019, potentially with no agreement. Brexit could

lead to economic and legal uncertainty, including significant volatility in global stock markets and currency exchange rates, and increasingly divergent laws, regulations and licensing requirements applicable to us as the United Kingdom determines which EU laws to replace or replicate. Any of these effects of Brexit, among others, could adversely affect our operations and financial results.

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

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

We rely significantly on independent distributors and resellers to market and distribute our solutions and services. Our distributors generally sell through resellers. Our distributor and reseller base is relatively concentrated. We maintain and periodically revise our sales incentive programs for our independent distributors and resellers, and such program revisions may adversely impact our results of operations. Changes to our sales incentive programs can result from a number of factors, including our transition to a subscription-based business model. Our competitors may in some cases be effective in providing incentives to current or potential distributors and resellers to favor their products or to prevent or reduce sales of our solutions. The loss of or reduction in sales to our distributors or resellers could materially reduce our revenues. Further, we could maintain individually significant accounts receivable balances with certain distributors. The financial condition of our distributors could deteriorate and distributors could significantly delay or default on their payment obligations. Any significant delays, defaults or terminations could have a material adverse effect on our business, results of operations and financial condition.

We are in the process of diversifying our base of channel relationships by adding and training more channel partners with abilities to reach larger enterprise customers and additional mid-market customers and to sell our newer solutions and services. We are also in the process of building relationships with new types of channel partners, such as systems integrators and service providers. In addition to this diversification of our partner base, we will need to maintain a healthy mix of channel members who service smaller customers. We may need to add and remove distribution partners to maintain customer satisfaction, support a steady adoption rate of our solutions, and align with our transition to a subscription-based business model, which could increase our operating expenses, credit risk, and adversely impact our go-to-market effectiveness. We also bear the risk that our existing or newer channel partners will fail to comply with US or international anti-corruption or anti-competition laws, in which case we might be fined or otherwise penalized as a result of the agency relationship with such partners. Through our Citrix Partner Network and other programs, we are currently investing, and intend to continue to invest, significant resources to develop these channels, which could adversely impact our results of operations if such channels do not result in increased revenues. Our Networking business could suffer if there are any interruptions or delays in the supply of hardware or hardware components from our third-party sources.

We rely on a concentrated number of third-party suppliers, who provide hardware or hardware components for our Networking products, and contract manufacturers. If we are required to change suppliers, there could be a delay in the supply of our hardware or hardware components and our ability to meet the demands of our customers could be adversely affected, which could cause the loss of Networking sales and existing or potential customers and delayed revenue recognition and adversely affect our results of operations. While we have not, to date, experienced any material difficulties or delays in the manufacture and assembly of our Networking products, our suppliers may encounter problems during manufacturing due to a variety of reasons, including failure to follow specific protocols and procedures, failure to comply with applicable regulations, or the need to implement costly or time-consuming protocols to comply with applicable regulations (including regulations related to conflict minerals), equipment malfunction, natural disasters and environmental factors, any of which could delay or impede their ability to meet our demand.

We are exposed to fluctuations in foreign currency exchange rates, which could adversely affect our future operating results.

Our results of operations are subject to fluctuations in exchange rates, which could adversely affect our future revenue and overall operating results. In order to minimize volatility in earnings associated with fluctuations in the value of foreign currency relative to the U.S. dollar, we use financial instruments to hedge our exposure to foreign currencies as we deem appropriate for a portion of our expenses, which are denominated in the local currency of our foreign subsidiaries. We generally initiate our hedging of currency exchange risks one year in advance of anticipated foreign currency expenses for those currencies to which we have the greatest exposure. When the dollar is weak, foreign currency denominated expenses will be higher, and these higher expenses will be partially offset by the gains realized from our hedging contracts. If the dollar is strong, foreign currency denominated expenses will be lower. These lower expenses will in turn be partially offset by the losses incurred from our hedging contracts. There is a risk that there will be fluctuations in foreign currency exchange rates beyond the one year timeframe for which we hedge our risk and there is no guarantee that we will accurately forecast the expenses we are hedging. Further, a substantial portion

of our overseas assets and liabilities are denominated in local currencies. To protect against fluctuations in earnings caused by changes in currency exchange rates when remeasuring our balance sheet, we utilize foreign exchange forward contracts to hedge our exposure to this potential volatility. There is no assurance that our hedging strategies will be effective. In addition, as a result of entering into these contracts with counterparties who are unrelated to us, the risk of a counterparty default exists in fulfilling the hedge contract. Should there be a counterparty default, we could be unable to recover anticipated net gains from the transactions.

## RISKS RELATED TO ACQUISITIONS, STRATEGIC RELATIONSHIPS AND DIVESTITURES

Acquisitions and divestitures present many risks, and we may not realize the financial and strategic goals we anticipate.

We have in the past addressed, and may continue to address, the development of new solutions and services and enhancements to existing solutions and services through acquisitions of other companies, product lines and/or technologies. However, acquisitions, including those of high-technology companies, are inherently risky. We cannot provide any assurance that any of our acquisitions or future acquisitions will be successful in helping us reach our financial and strategic goals. The risks we commonly encounter in undertaking, managing and integrating acquisitions are:

- an uncertain revenue and earnings stream from the acquired company, which could dilute our earnings;
- difficulties and delays integrating the personnel, operations, technologies, solutions and systems of the acquired companies;
- undetected errors or unauthorized use of a third-party's code in solutions of the acquired companies;
- our ongoing business may be disrupted and our management's attention may be diverted by acquisition, transition or integration activities;
- challenges with implementing adequate and appropriate controls, procedures and policies in the acquired business;
- difficulties managing or integrating an acquired company's technologies or lines of business;
- potential difficulties in completing projects associated with purchased in-process research and development;
- entry into markets in which we have no or limited direct prior experience and where competitors have stronger market positions and which are highly competitive;
- the potential loss of key employees of the acquired company;
- potential difficulties integrating the acquired solutions and services into our sales channel;
- assuming pre-existing contractual relationships of an acquired company that we would not have otherwise entered into, the termination or modification of which may be costly or disruptive to our business;
- being subject to unfavorable revenue recognition or other accounting treatment as a result of an acquired company's practices;
- potential difficulties securing financing necessary to consummate substantial acquisitions;
- issuing shares of our stock, which may be dilutive to our stockholders; and
- intellectual property claims or disputes.

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

Any future divestitures we make may also involve risks and uncertainties. Any such divestitures could result in disruption to other parts of our business, potential loss of employees or customers, exposure to unanticipated liabilities or result in ongoing obligations and liabilities to us following any such divestiture. For example, in connection with a divestiture, we may enter into transition services agreements or other strategic relationships, including long-term services arrangements, or agree to provide certain indemnities to the purchaser in any such transaction, which may result in additional expense. Further, if we do not realize the expected benefits or synergies of such transactions, our operating results and financial conditions could be adversely affected.

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

We have a significant amount of goodwill and other intangible assets, such as product related intangible assets, from our acquisitions. We do not amortize goodwill and intangible assets that are deemed to have indefinite lives. However, we do amortize certain product related technologies, trademarks, patents and other intangibles and we periodically evaluate them for impairment. We review goodwill for impairment annually, or sooner if events or changes in circumstances indicate that the carrying amount could exceed fair value, at the reporting unit level, which for us also represents our operating segments. Significant judgments are required to estimate the fair value of our goodwill and intangible assets, including estimating future cash flows, determining appropriate discount rates, estimating the applicable tax rates, foreign exchange rates and interest rates, projecting the future industry trends and market conditions, and making other assumptions. Although we believe the assumptions, judgments and estimates we have

made have been reasonable and appropriate, different assumptions, judgments and estimates, materially affect our results of operations. Changes in these estimates and assumptions, including changes in our reporting structure, could materially affect our determinations of fair value. In addition, due to uncertain market conditions and potential changes in our strategy and product portfolio, it is possible that the forecasts we use to support our goodwill and other intangible assets could change in the future, which could result in non-cash charges that would adversely affect our results of operations and financial condition. Also, we may make divestitures of businesses in the future. If we determine that any of the intangible assets associated with our acquisitions is impaired or goodwill is impaired, then we would be required to reduce the value of those assets or to write them off completely by taking a charge to current earnings. If we are required to write down or

write off all or a portion of those assets, or if financial analysts or investors believe we may need to take such action in the future, our stock price and operating results could be materially and adversely affected.

Our inability to maintain or develop our strategic and technology relationships could adversely affect our business. We have several strategic and technology relationships with large and complex organizations, such as Microsoft and Google, and other companies with which we work to offer complementary solutions and services. We depend on the companies with which we have strategic relationships to successfully test our solutions, to incorporate our technology into their products and to market and sell those solutions. There can be no assurance we will realize the expected benefits from these strategic relationships or that they will continue in the future. If successful, these relationships may be mutually beneficial and result in industry growth. However, such relationships carry an element of risk because, in most cases, we must compete in some business areas with a company with which we have a strategic relationship and, at the same time, cooperate with that company in other business areas. Also, if these companies fail to perform or if these relationships fail to materialize as expected, we could suffer delays in product development, reduced sales or other operational difficulties and our business, results of operations and financial condition could be materially adversely affected.

#### RISKS RELATED TO INTELLECTUAL PROPERTY AND BRAND RECOGNITION

Our efforts to protect our intellectual property may not be successful, which could materially and adversely affect our business.

We rely primarily on a combination of copyright, trademark, patent and trade secret laws, confidentiality procedures and contractual provisions to protect our source code, innovations and other intellectual property, all of which offer only limited protection. The loss of any material trade secret, trademark, tradename, patent or copyright could have a material adverse effect on our business. Despite our precautions, it could be possible for unauthorized third parties to infringe our intellectual property rights or misappropriate, copy, disclose or reverse engineer our proprietary information, including certain portions of our solutions or to otherwise obtain and use our proprietary source code. We have sought to protect our intellectual property through offensive litigation, which may be costly and unsuccessful and/or subject us to successful counterclaims or challenges to our intellectual property rights. In addition, our ability to monitor and control such misappropriation or infringement is uncertain, particularly in countries outside of the United States. If we cannot protect our intellectual property from infringement and our proprietary source code against unauthorized copying, disclosure or use, we could lose market share, including as a result of unauthorized third parties' development of solutions and technologies similar to or better than ours.

The scope of our patent protection may be affected by changes in legal precedent and patent office interpretation of these precedents. Further, any patents owned by us could be invalidated, circumvented or challenged. Any of our pending or future patent applications, whether or not being currently challenged, may not be issued with the scope of protection we seek, if at all; and if issued, may not provide any meaningful protection or competitive advantage. Our ability to protect our proprietary rights could be affected by differences in international law and the enforceability of licenses. The laws of some foreign countries do not protect our intellectual property to the same extent as do the laws of the United States and Canada. For example, we derive a significant portion of our sales from licensing our solutions under "click-to-accept" license agreements that are not signed by licensees and through electronic enterprise customer licensing arrangements that are delivered electronically, all of which could be unenforceable under the laws of many foreign jurisdictions in which we license our solutions. Moreover, with respect to the various confidentiality, license or other agreements we utilize with third parties related to their use of our solutions and technologies, there is no guarantee that such parties will abide by the terms of such agreements.

Our solutions and services, including solutions obtained through acquisitions, could infringe third-party intellectual property rights, which could result in material litigation costs.

We are routinely subject to patent infringement claims and may in the future be subject to an increased number of claims, including claims alleging the unauthorized use of a third-party's code in our solutions. This may occur for a variety of reasons, including:

- the expansion of our product lines through product development and acquisitions;
- the volume of patent infringement litigation commenced by non-practicing entities;

•



an increase in the number of competitors in our industry segments and the resulting increase in the number of related solutions and services and the overlap in the functionality of those solutions and services;

an increase in the number of our competitors and third parties that use their own intellectual property rights to limit our freedom to operate and exploit our solutions, or to otherwise block us from taking full advantage of our markets; our reliance on the technology of others and, therefore, the requirement to obtain intellectual property licenses from third parties in order for us to commercialize our solutions or services, which licenses we may not be able to obtain or continue to obtain from these third parties on reasonable terms; and the unauthorized or improperly licensed use of third-party code in our solutions.

Further, responding to any infringement claim, regardless of its validity or merit, could result in costly litigation.

Further, intellectual property litigation could compel us to do one or more of the following:

- pay damages (including the potential for treble damages), license fees or royalties (including royalties for past periods) to the party claiming infringement;

- cease selling solutions or services that use the challenged intellectual property;

- obtain a license from the owner of the asserted intellectual property to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or

- redesign the challenged technology, which could be time consuming and costly, or not be accomplished.

If we were compelled to take any of these actions, our business, results of operations or financial condition may be adversely impacted.

Our use of “open source” software could negatively impact our ability to sell our solutions and subject us to possible litigation.

The solutions or technologies acquired, licensed or developed by us may incorporate so-called “open source” software, and we may incorporate open source software into other solutions in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses, including, for example, the GNU General Public License, the GNU Lesser General Public License, “Apache-style” licenses, “Berkeley Software Distribution,” “BSD-style” licenses, and other open source licenses. Even though we attempt to monitor our use of open source software in an effort to avoid subjecting our solutions to conditions we do not intend, it is possible that not all instances of our open source code usage are properly reviewed. Further, although we believe that we have complied with our obligations under the various applicable licenses for open source software that we use such that we have not triggered any of these conditions, there is little or no legal precedent governing the interpretation or enforcement of many of the terms of these types of licenses. If an author or other third party that distributes open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations. If our defenses were not successful, we could be subject to significant damages, enjoined from the distribution of our solutions that contained open source software, and required to comply with the terms of the applicable license, which could disrupt the distribution and sale of some of our solutions. In addition, if we combine our proprietary software with open source software in an unintended manner, under some open source licenses we could be required to publicly release the source code of our proprietary software, offer our solutions that use the open source software for no cost, make available source code for modifications or derivative works we create based upon incorporating or using the open source software, and/or license such modifications or derivative works under the terms of the particular open source license.

In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide technology support, maintenance, warranties or assurance of title or controls on the origin of the software.

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

We believe that we will continue to rely, in part, on third-party licenses to enhance and differentiate our solutions.

Third-party licensing arrangements are subject to a number of risks and uncertainties, including:

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

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

- infringement actions brought by third-parties;

- the creation of solutions by third parties that directly compete with our solutions; and

- termination or expiration of the license.

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

Our business depends on maintaining and protecting the strength of our collection of brands.

The Citrix solution and service brands that we have developed have significantly contributed to the success of our business. Maintaining and enhancing the Citrix solution and service brands is critical to expanding our base of customers and partners. We may be subject to reputational risks and our brand loyalty may decline if others adopt the same or confusingly similar marks in an effort to misappropriate and profit on our brand name and do not provide the same level of quality as is delivered by our solutions and services. Also, others may rely on false comparative advertising and customers or potential customers could be influenced by false advertising. Additionally, we may be unable to use some of our brands in certain countries or unable to secure trademark rights in certain jurisdictions where we do business. In order to police, maintain, enhance and protect our brands, we may be required to make substantial investments that may not be successful. If we fail to police, maintain, enhance and protect the Citrix brands, if we incur excessive expenses in this effort or if customers or potential customers are confused by others' trademarks, our business, operating results, and financial condition may be materially and adversely affected.

#### RISKS RELATED TO OUR COMMON STOCK, OUR DEBT AND EXTERNAL FACTORS

Servicing our debt will require a significant amount of cash, which could adversely affect our business, financial condition and results of operations. We may not have sufficient cash flow from our business to make payments on our debt, settle conversions of our Convertible Notes or repurchase our Convertible Notes or 2027 Notes upon certain events.

We have aggregate indebtedness of approximately \$1.90 billion that we have incurred in connection with the issuance of our unsecured senior notes due December 1, 2027, or the 2027 Notes, and our 0.500% Convertible Notes due April 15, 2019, or the Convertible Notes, and under our Credit Agreement, and we may incur additional indebtedness in the future. Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, depends on our future performance, which is subject to general economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt and to make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, reducing capital expenditures, restructuring debt or obtaining additional equity or debt financing on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness, as applicable, will depend on the capital markets and our financial condition at such time. We may not be able to sell assets, restructure our indebtedness or obtain additional equity or debt financing on terms that are acceptable to us or at all, which could result in a default on our debt obligations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates" and Note 13 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for information regarding our 2027 Notes, our Convertible Notes and our Credit Facility.

In addition, holders of our Convertible Notes have the right to require us to repurchase their Convertible Notes upon the occurrence of a fundamental change at a fundamental change repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest, if any. If a change in control repurchase event occurs with respect to the 2027 Notes, we will be required, subject to certain exceptions, to offer to repurchase the 2027 Notes at a repurchase price equal to 101% of the principal amount of the 2027 Notes repurchased, plus accrued and unpaid interest, if any. Further, upon conversion of the Convertible Notes, we are required to make cash payments for each \$1,000 in principal amount of Convertible Notes converted of at least the lesser of \$1,000 and the sum of the daily conversion values thereunder. In such events, we may not have enough available cash or be able to obtain financing to fund the required repurchase of the Convertible Notes or 2027 Notes or make cash payments upon conversion of the Convertible Notes, or making such payments could adversely affect our liquidity. As of October 15, 2018, we had received conversion notices from noteholders with respect to \$273.0 million in aggregate principal amount of Convertible Notes requesting conversion. In accordance with the terms of the Convertible Notes, in the fourth quarter of 2018 we made cash payments of this aggregate principal amount and delivered 1.3 million newly issued shares of our common stock in respect of the remainder of our conversion obligation in excess of the aggregate principal amount of the Convertible Notes being redeemed, in full satisfaction of such converted notes. Commencing on October 15, 2018 until the close of business on the second scheduled trading day immediately preceding the April 15, 2019 maturity date, holders of the Convertible Notes may convert their notes in their discretion. In addition, our ability to repurchase the Convertible Notes or 2027 Notes or to pay cash upon conversion

of the Convertible Notes may be limited by law, by regulatory authority or by agreements governing our other indebtedness.

Further, we are required to comply with the covenants set forth in the indenture governing the Convertible Notes, the indenture governing the 2027 Notes and the Credit Agreement. In particular, the Credit Agreement requires us to maintain certain leverage and interest ratios and contains various affirmative and negative covenants, including covenants that limit or restrict our ability to grant liens, merge or consolidate, dispose of all or substantially all of our assets, change our business or incur subsidiary indebtedness. The indenture governing our 2027 Notes contains covenants limiting our ability and the ability of our subsidiaries to create certain liens, enter into certain sale and leaseback transactions, and consolidate or merge with, or sell, assign, convey, lease, transfer or otherwise dispose of all or substantially all of our assets, taken as a whole, to, another

person. If we fail to comply with these covenants or any other provision of the agreements governing our indebtedness and do not obtain a waiver from the lenders or noteholders, then, subject to applicable cure periods, our outstanding indebtedness may be declared immediately due and payable. Additionally, a default under an indenture or the Credit Agreement could lead to a default under the other agreements governing our current and any future indebtedness. If the repayment of the related indebtedness were to be accelerated, we may not have enough available cash or be able to obtain financing to repay the indebtedness.

Our indebtedness, combined with our other financial obligations and contractual commitments, could have other important consequences. For example, it could:

- make us more vulnerable to adverse changes in general U.S. and worldwide economic, industry and competitive conditions and adverse changes in government regulation;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry;
- place us at a disadvantage compared to our competitors who have less debt; and
- limit our ability to borrow additional amounts to fund acquisitions, for working capital and for other general corporate purposes.

Any of these factors could materially and adversely affect our business, financial condition and results of operations. In addition, if we incur additional indebtedness, the risks related to our business and our ability to service or repay our indebtedness would increase. Also, changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities, as well as the potential costs associated with any potential refinancing of our indebtedness. Downgrades in our credit rating could also restrict our ability to obtain additional financing in the future and could affect the terms of any such financing.

The accounting method for convertible debt securities that may be settled in cash, such as the Convertible Notes, could have a material effect on our reported financial results.

Under FASB Accounting Standards Codification 470-20, Debt with Conversion and Other Options, or ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Convertible Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the Convertible Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Convertible Notes, which will result in non-cash charges to interest expense in our consolidated statement of income. As a result, we will report lower net income in our financial results as reported in accordance with U.S. GAAP because ASC 470-20 will require interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results.

In addition, under certain circumstances, convertible debt instruments (such as the Convertible Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Convertible Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Convertible Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Convertible Notes, then our diluted earnings per share would be adversely affected. Moreover, the warrants that we issued in connection with the pricing of the Convertible Notes would need to be included in the number of diluted shares reported if our stock price increases above the relevant exercise price on an average basis during the applicable period, which would negatively impact our diluted earnings per share.

Our portfolios of liquid securities and other investments may lose value or become impaired.

Our investment portfolio consists of agency securities, corporate securities, money market funds, municipal securities, government securities and commercial paper. Although we follow an established investment policy and seek to minimize the credit risk associated with investments by investing primarily in investment grade, highly liquid securities and by limiting exposure to any one issuer depending on credit quality, we cannot give assurances that the

assets in our investment portfolio will not lose value, become impaired, or suffer from illiquidity.

Changes in our tax rates or our exposure to additional income tax liabilities could affect our operating results and financial condition.

Our future effective tax rates could be favorably or unfavorably affected by changes in the valuation of our deferred tax assets and liabilities, the geographic mix of our revenue, or by changes in tax laws or their interpretation.

Significant judgment

is required in determining our worldwide provision for income taxes. In addition, we are subject to the continuous examination of our income tax returns by tax authorities, including the IRS. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance, however, that the outcomes from these continuous examinations will not have an adverse effect on our operating results and financial condition. The Tax Cuts and Jobs Act of 2017, or the 2017 Tax Act, as well as new, evolving or revised tax laws and regulations globally, and any changes in the application or interpretation of these regulations may have an adverse effect on our business or on our results of operations. Additionally, the U.S. Treasury Department and other standard-setting bodies will continue to issue guidance and interpret how provisions of the 2017 Tax Act will be administered and applied that may significantly affect our results of operations in the period issued.

There can be no assurance that we will continue to return capital to our stockholders through the payment of cash dividends and/or the repurchase of our stock.

From time to time, our Board of Directors authorizes the payment of cash dividends or additional share repurchase authority under our ongoing stock repurchase program as part of our capital return to stockholders. The amount and timing of cash dividends and stock repurchases are subject to capital availability and our determination that such cash dividends or stock repurchases are in the best interest of our stockholders and are in compliance with all respective laws and our applicable agreements. Our ability to pay cash dividends or repurchase stock will depend upon, among other factors, our cash balances and potential future capital requirements for strategic transactions, debt service, capital expenditures, working capital and other general corporate purposes, as well as our results of operations, financial condition and other factors that we may deem relevant. Moreover, a reduction in, or the completion of, our stock repurchase program could have a negative effect on our stock price. We can provide no assurance that we will continue to pay cash dividends or repurchase stock at favorable prices, if at all.

Our stock price could be volatile, particularly during times of economic uncertainty and volatility in domestic and international stock markets, and you could lose the value of your investment.

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

- actual or anticipated variations in operating and financial results, including the failure to meet key operational metrics;
- analyst reports or recommendations;
- rumors, announcements, or press articles regarding our or our competitors' operations, management, organization, financial condition, or financial statements; and
- other events or factors, many of which are beyond our control.

The stock market in general, The Nasdaq Global Select Market, and the market for software companies and technology companies in particular, have experienced extreme price and volume fluctuations. These fluctuations have often been unrelated or disproportionate to operating performance. These fluctuations may continue in the future and this could materially and adversely affect the market price of our stock, regardless of operating performance.

Changes or modifications in financial accounting standards may have a material adverse impact on our reported results of operations or financial condition.

A change or modification in accounting policies can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New pronouncements and varying interpretations of existing pronouncements have occurred with frequency and may occur in the future. Changes to existing rules, or changes to the interpretations of existing rules, could lead to changes in our accounting practices, and such changes could materially adversely affect our reported financial results or the way we conduct our business. Natural disasters or other unanticipated catastrophes that result in a disruption of our operations could negatively impact our results of operations.

Our worldwide operations are dependent on our network infrastructure, internal technology systems and website. Significant portions of our computer equipment, intellectual property resources and personnel, including critical resources dedicated to research and development and administrative support functions are presently located at our corporate headquarters in Fort Lauderdale, Florida, an area of the country that is particularly prone to hurricanes, and



at our various locations in California, an area of the country that is particularly prone to earthquakes. We also have operations in various domestic and international locations that expose us to additional diverse risks. The occurrence of natural disasters, such as hurricanes, floods or earthquakes, or other unanticipated catastrophes, such as telecommunications failures, cyber-attacks, fires or terrorist attacks,

at any of the locations in which we or our key partners, suppliers and customers do business, could cause interruptions in our operations. For example, hurricanes have passed through southern Florida causing extensive damage to the region. In addition, even in the absence of direct damage to our operations, large disasters, terrorist attacks or other casualty events could have a significant impact on our partners', suppliers' and customers' businesses, which in turn could result in a negative impact on our results of operations. Extensive or multiple disruptions in our operations, or our partners', suppliers' or customers' businesses, due to natural disasters or other unanticipated catastrophes could have a material adverse effect on our results of operations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

We have received no written comments regarding our periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of our 2018 fiscal year that remain unresolved.

**ITEM 2. PROPERTIES**

We lease and sublease office space in the Americas, which is comprised of the United States, Canada and Latin America, EMEA, which is comprised of Europe, the Middle East and Africa, and APJ, which is comprised of Asia-Pacific and Japan. The following table presents the location and square footage of our leased office space as of December 31, 2018:

	Square footage
Americas	786,857
EMEA	243,382
APJ	636,209
Total	1,666,448

In addition, we own land and buildings in Fort Lauderdale, Florida with approximately 317,000 square feet of office space used for our corporate headquarters and approximately 41,000 square feet of office space in Chalfont St. Peter, United Kingdom.

We believe that our existing facilities are adequate for our current needs. As additional space is needed in the future, we believe that suitable space will be available in the required locations on commercially reasonable terms.

**ITEM 3. LEGAL PROCEEDINGS**

Due to the nature of our business, we are subject to patent infringement claims, including current suits against us or one or more of our wholly-owned subsidiaries alleging infringement by various Citrix solutions and services. We believe that we have meritorious defenses to the allegations made in our pending cases and intend to vigorously defend these lawsuits; however, we are unable currently to determine the ultimate outcome of these or similar matters or the potential exposure to loss, if any. In addition, we are a defendant in various litigation matters generally arising out of the normal course of business. Although it is difficult to predict the ultimate outcomes of these cases, we believe that it is not reasonably possible that the ultimate outcomes will materially and adversely affect our business, financial position, results of operations or cash flows.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

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

## Market for Common Stock and Dividend Policy

Our common stock is currently traded on The Nasdaq Global Select Market under the symbol CTXS. As of February 8, 2019, there were 471 holders of record of our common stock.

We currently intend to retain any earnings for use in our business, for investment in acquisitions to repurchase shares of our common stock, and to pay future dividends. Historically, we have not paid any cash dividends on our capital stock. However, on October 24, 2018, we announced that our Board of Directors approved a quarterly cash dividend of \$0.35

per share which was paid on December 21, 2018 to all shareholders of record as of the close of business on December 7, 2018. Additionally, on January 23, 2019, we announced that our Board of Directors approved a quarterly cash dividend of \$0.35 per share. This dividend is payable on March 22, 2019 to all shareholders of record as of the close of business on March 8, 2019.

Future dividend declarations, if any, as well as the record and payment dates for such dividends, are subject to the final

determination of our Board of Directors. Our Board of Directors will continue to review our capital allocation strategy for potential modifications and will determine whether to pay future dividends on a quarterly basis based on our financial performance, business outlook and other considerations.

## Recent Sales of Unregistered Securities

None.

## Issuer Purchases of Equity Securities

Our Board of Directors has authorized an ongoing stock repurchase program, of which \$1.7 billion was approved in November 2017 and \$750.0 million was approved in October 2018. We may use the approved dollar authority to repurchase stock at any time until the approved amount is exhausted. The objective of the stock repurchase program is to improve stockholders' returns. At December 31, 2018, approximately \$767.9 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock. A portion of the funds used to repurchase stock over the course of the program was provided by net proceeds from the Convertible Notes and 2027 Notes offerings, as well as proceeds from employee stock awards and the related tax benefit. We are authorized to make purchases of our common stock using general corporate funds through open market purchases, pursuant to a Rule 10b5-1 plan or in privately negotiated transactions.

The following table shows the monthly activity related to our stock repurchase program for the quarter ended December 31, 2018.

	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate dollar value of Shares that may yet be Purchased under the Plans or Programs (in thousands) <sup>(2)</sup>
October 1, 2018 through October 31, 2018	52,998	\$ 110.35	—	\$ 1,147,896
November 1, 2018 through November 30, 2018	1,361,524	\$ 107.84	1,297,589	\$ 1,007,896
December 1, 2018 through December 31, 2018	2,299,135	\$ 106.71	2,247,135	\$ 767,896
Total	3,713,657	\$ 107.17	3,544,724	\$ 767,896

(1) Includes approximately 168,933 shares withheld from restricted stock units that vested in the fourth quarter of 2018 to satisfy minimum tax withholding obligations that arose on the vesting of restricted stock units.

Shares withheld from restricted stock units that vested to satisfy minimum tax withholding obligations that arose (2) on the vesting of such awards do not deplete the dollar amount available for purchases under the repurchase program.

## Securities Authorized for Issuance Under Equity Compensation Plans

Information about our equity compensation plans is incorporated herein by reference to Item 12 of Part III of this Annual Report on Form 10-K.

## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data is derived from our consolidated financial statements. This data should be read in conjunction with the consolidated financial statements and notes thereto, and with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended December 31,				
	2018	2017(a)	2016(a)	2015(a)	2014(a)
	(In thousands, except per share data)				
<b>Consolidated Statements of Income Data:</b>					
Net revenues	\$2,973,903	\$2,824,686	\$2,736,080	\$2,646,154	\$2,563,064
Cost of net revenues <sup>(b)</sup>	433,803	439,646	404,889	474,040	493,706
Gross margin	2,540,100	2,385,040	2,331,191	2,172,114	2,069,358
Operating expenses <sup>(c)</sup>	1,862,140	1,814,043	1,771,027	1,969,322	1,894,438
Income from operations	677,960	570,997	560,164	202,792	174,920
Interest income	40,030	27,808	16,686	11,675	9,421
Interest expense	(80,162)	(51,609)	(44,949)	(44,153)	(28,332)
Other (expense) income, net	(8,373)	3,150	(4,131)	(5,730)	(7,694)
Income from continuing operations before income taxes	629,455	550,346	527,770	164,584	148,315
Income tax expense (benefit)	53,788	528,361	57,915	(50,549)	(18,904)
Income from continuing operations	575,667	21,985	469,855	215,133	167,219
(Loss) income from discontinued operations, net of income tax expense	—	(42,704)	66,257	104,228	84,504
Net income (loss)	\$575,667	\$(20,719)	\$536,112	\$319,361	\$251,723
<b>Diluted earnings (loss) per share:</b>					
Income from continuing operations	3.94	0.14	2.99	1.34	0.98
(Loss) income from discontinued operations	—	(0.27)	0.42	0.65	0.49
Diluted net earnings (loss) per share	\$3.94	\$(0.13)	\$3.41	\$1.99	\$1.47
Weighted average shares outstanding - diluted	145,934	155,503	157,084	160,362	171,270

December 31,				
2018	2017	2016	2015	2014
(In thousands)				

**Consolidated Balance Sheet Data<sup>(d)</sup>:**

Total assets	\$5,136,049	\$5,820,176	\$6,390,227	\$5,467,517	\$5,512,007
Total equity	551,519	992,461	2,608,727	1,973,446	2,173,645

The selected financial data for fiscal years ended December 31, 2017, 2016, 2015 and 2014 has been adjusted to be (a) presented on a continuing operations basis. Refer to Note 3 Discontinued Operations in our Consolidated Financial Statements for additional information.

(b) Cost of net revenues includes amortization and impairment of product related intangible assets of \$47.1 million, \$65.7 million, \$55.4 million, \$127.3 million, and \$142.2 million in 2018, 2017, 2016, 2015 and 2014, respectively.

Operating expenses includes amortization and impairment of other intangible assets of \$15.9 million, \$17.2 million, \$15.1 million, \$97.5 million, and \$41.9 million in 2018, 2017, 2016, 2015 and 2014, respectively.

(c) Operating expenses also include restructuring charges of \$16.7 million, \$72.4 million, \$67.4 million, \$98.7 million and \$14.1 million in 2018, 2017, 2016, 2015 and 2014, respectively.

(d) Balance Sheet amounts prior to 2017 include amounts for the GoTo Business. Refer to Note 3 Discontinued Operations in our Consolidated Financial Statements for additional information.



## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

Citrix aims to power a better way to work by delivering the experience, security, and choice people and organizations need to unlock innovation, engage customers, and be productive - anytime, anywhere. We do this by delivering a general purpose digital workspace that empowers all users with unified, secure, and reliable access to all apps and content needed to be productive - anytime, anywhere. We help customers reimagine the future of work by delivering unified digital workspace, networking, and analytics solutions that improve employee experience and productivity, while also simplifying IT's ability to adopt and manage complex cloud environments.

We market and license our solutions through multiple channels worldwide, including selling through resellers and direct over the Web. Our partner community comprises thousands of value-added resellers, or VARs known as Citrix Solution Advisors, value-added distributors, or VADs, systems integrators, or SIs, independent software vendors, or ISVs, original equipment manufacturers, or OEMs, and Citrix Service Providers, or CSPs.

### Executive Summary

Citrix is powering a better way to work with unified workspace, networking, and analytics solutions that help organizations unlock innovation, engage customers, and boost productivity, without sacrificing security. With Citrix, users get a seamless work experience and IT has a unified platform to secure, manage, and monitor diverse technologies in complex cloud environments.

During the year ended December 31, 2018, our transition to the cloud and a subscription-based business model continued to gain momentum, which contributed to our strong financial results. In addition, we have maintained a disciplined approach to spending, while continuing to invest more into demand generation and sales capacity in order to support our growth, business model transition, and cloud infrastructure. We accelerated our innovation in the cloud, with the introduction of new services, features and capabilities in our cloud solutions to build out a comprehensive secure digital workspace. We expect our transition to a subscription-based business model to provide financial and operational benefits to Citrix, including by increasing customer life-time-value, expanding our customer use-cases and innovation opportunities, and extending the use of Citrix services to securely deliver a broader array of applications, including Web, software-as-a-service (SaaS) apps and services.

On February 2, 2018, we entered into an Accelerated Share Repurchase, or ASR, transaction with a counterparty to pay an aggregate of \$750.0 million in exchange for the immediate delivery of approximately 6.5 million shares of our common stock based on current market prices. The purchase price per share under the ASR was based on the volume-weighted average price of our common stock during the term of the ASR, less a discount. The ASR was entered into pursuant to our existing share repurchase program. Final settlement of the ASR agreement was completed in April 2018, and we received delivery of an additional 1.6 million shares of our common stock.

On May 8, 2018, we announced our intention to initiate a quarterly cash dividend beginning in the fourth quarter of 2018, subject to declaration by our Board of Directors, as part of our capital return program. On October 24, 2018, we announced that our Board of Directors declared a \$0.35 per share dividend payable December 21, 2018 to all shareholders of record as of the close of business on December 7, 2018. Additionally, on October 24, 2018 we announced that our Board of Directors approved an increase of an additional \$750.0 million to our existing share repurchase program.

On January 23, 2019, we announced that our Board of Directors declared a \$0.35 per share dividend payable March 22, 2019 to all shareholders of record as of the close of business on March 8, 2019. Our Board of Directors will continue to review our capital allocation strategy for potential modifications and will determine whether to repurchase shares of our common stock and/or declare future dividends based on our financial performance, business outlook and other considerations.

### Reclassifications

Beginning in fiscal year 2018, we revised our presentation of revenue to align with our subscription business model transition as follows: (1) subscription revenue, which includes revenue from our cloud services offerings and on-premise subscriptions as well as revenue from our CSP offerings; (2) product and license revenue from perpetual product offerings; and (3) support and services revenue for perpetual product and license offerings. See Note 2 to our



consolidated financial statements for more information regarding the reclassifications described above.

## Summary of Results

For the year ended December 31, 2018 compared to the year ended December 31, 2017, we delivered the following financial performance:

- Subscription revenue increased 44.7% to \$455.3 million;
- Product and license revenue decreased 4.2% to \$734.5 million;
- Support and services revenue increased 2.3% to \$1.78 billion;
- Gross margin as a percentage of revenue increased 1.0% to 85.4%;
- Operating income increased 18.7% to \$678.0 million;
- Diluted earnings per share increased from \$0.14 to \$3.94; and
- Unbilled revenue increased \$258.4 million to \$338.5 million.

Our Subscription revenue increased primarily due to increased customer adoption of our cloud-based solutions from our Digital Workspace and Networking offerings delivered via the cloud. Our Product and license revenue decreased primarily due to lower sales of our perpetual Digital Workspace solutions and Networking products as customers continued to shift to our cloud-based solutions. The increase in Support and services revenue was primarily due to increased sales of maintenance services across our Digital Workspace perpetual offerings as our customers have shifted to our Customer Success Service offerings. We currently expect total revenue to increase when comparing the first quarter of 2019 to the first quarter of 2018. In addition, when comparing the 2019 fiscal year to the 2018 fiscal year, we currently expect total revenue to increase. The increase in gross margin was primarily due to an increase in sales and due to 2017 including the impairment of certain product related intangible assets. The increase in operating income when comparing 2018 to 2017 was primarily due to a higher gross margin driven by an increase in sales and lower intangible asset amortization, partially offset by an increase in operating expenses. The increase in diluted earnings per share when comparing 2018 to 2017 was primarily due to an increase in operating margin, and a decrease in income tax expense, as well as a decrease in the number of weighted average shares outstanding due to share repurchases. These increases were partially offset by an increase in interest expense related to our 2027 Notes.

### 2018 Business Combinations

#### Sapho, Inc.

On November 13, 2018, we acquired all of the issued and outstanding securities of Sapho, Inc. (“Sapho”), whose technology is intended to advance our development of the intelligent workspace. The acquired technology enables efficient workstyles by creating a unified and customizable notification experience for business applications. The total preliminary cash consideration for this transaction was \$182.9 million, net of \$3.7 million cash acquired. Transaction costs associated with the acquisition were not significant.

#### Cedexis, Inc.

On February 6, 2018, we acquired all of the issued and outstanding securities of Cedexis, Inc. (“Cedexis”) whose solution is a real-time data driven service for dynamically optimizing the flow of traffic across public clouds and data centers that provides a dynamic and reliable way to route and manage Internet performance for customers moving towards hybrid and multi-cloud deployments. The total cash consideration for this transaction was \$66.0 million, net of \$6.0 million cash acquired. Transaction costs associated with the acquisition were not significant.

We have included the effect of the 2018 business combinations in our results of operations prospectively from the date of acquisition.

### 2017 Business Combination

On January 3, 2017, we acquired all of the issued and outstanding securities of Unidesk Corporation (“Unidesk”). We acquired Unidesk to enhance our application management and delivery offerings. The total cash consideration for this transaction was \$60.4 million, net of \$2.7 million cash acquired. Transaction costs associated with the acquisition were not significant.

### Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets,



liabilities, revenues and expenses, and related disclosure of contingent liabilities. We base these estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances, and these estimates form the basis for our judgments concerning the carrying values of assets and liabilities that are not readily apparent from other sources. We periodically evaluate these estimates and judgments based on available information and experience. Actual results could differ from our estimates under different assumptions and conditions. If actual results significantly differ from our estimates, our financial condition and results of operations could be materially impacted.

We believe that the accounting policies described below are critical to understanding our business, results of operations and financial condition because they involve more significant judgments and estimates used in the preparation of our consolidated financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that could have been used, or changes in the accounting estimates that are reasonably likely to 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 December 31, 2018 describes the significant accounting policies and methods used in the preparation of our consolidated financial statements. There have been no material changes to the critical accounting policies, other than updates related to the adoption of the new revenue standard. See Note 2 to our consolidated financial statements for more information related to revenue recognition.

#### Revenue Recognition

We generate all of our revenues from contracts with customers. At contract inception, we assess the solutions or services, or bundles of solutions and services, obligated in the contract with a customer to identify each performance obligation within the contract, and then evaluate whether the performance obligations are capable of being distinct and distinct within the context of the contract. Solutions and services that are not both capable of being distinct and distinct within the context of the contract are combined and treated as a single performance obligation in determining the allocation and recognition of revenue.

The standalone selling price is the price at which we would sell a promised product or service separately to the customer. For the majority of our software licenses and hardware, CSP and on-premise subscription software licenses, we use the observable price in transactions with multiple performance obligations. For the majority of our support and services, and cloud-hosted subscription offerings, we use the observable price when we sell that support and service and cloud-hosted subscription separately to similar customers. If the standalone selling price for a performance obligation is not directly observable, we estimate it. We estimate the standalone selling price by taking into consideration market conditions, economics of the offering and customers’ behavior. We maximize the use of observable inputs and apply estimation methods consistently in similar circumstances. We allocate the transaction price to each distinct performance obligation on a relative standalone selling price basis.

Revenues are recognized when control of the promised products or services are transferred to customers, in an amount that reflects the consideration that we expect to receive in exchange for those products or services. See Note 2 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for further information on our revenue recognition.

#### 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. In addition, we hold direct investments in privately-held companies which are accounted for at cost, less impairment plus or minus adjustments resulting from observable price changes in orderly transactions for an identical or a similar investment of the same issuer. 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. We also hold equity interests in certain private equity funds which are

accounted for under the net asset value practical expedient. The net asset value of these investments is determined using quarterly capital statements from the funds which are based on our contributions to the funds, allocation of profit and loss and changes in fair value of the underlying fund investments. 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. During the year ended December 31, 2018, we recorded an other than temporary impairment of \$4.6 million of certain available-for-sale securities, which was included in Other (expense) income, net in the accompanying consolidated statements of income.

For our investments in privately-held companies accounted for at cost, less impairment plus or minus adjustments resulting from observable price changes in orderly transactions for an identical or a similar investment of the same issuer, we periodically review for impairment and observable price changes on a quarterly basis, and adjust the carrying value accordingly. See Notes 5 and 6 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 and "Liquidity and Capital Resources" for more information on our investments.

#### Intangible Assets

We have product related technology assets and other intangible assets from acquisitions and other third party agreements. We allocate the purchase price of intangible assets acquired through third party agreements based on their estimated relative fair values. We allocate a portion of the purchase price of acquired companies to the product related technology assets and other intangible 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 and other intangible 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. Critical estimates in valuing certain other intangible assets include, but are not limited to, future expected cash flows from customer contracts, customer retention rates, customer lists, distribution agreements, patents, brand awareness and market position, as well as discount rates.

Management's estimates of fair value are based upon assumptions believed to be reasonable. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results. We monitor acquired intangible assets for impairment on a periodic basis by reviewing for indicators of impairment. If an indicator exists, we compare the estimated net realizable value to the unamortized cost of the intangible asset. The recoverability of the intangible assets is primarily dependent upon our ability to commercialize solutions utilizing the acquired technologies, retain existing customers and customer contracts, and maintain brand awareness. The estimated net realizable value of the acquired intangible assets is based on the estimated undiscounted future cash flows derived from such intangible assets. Our assumptions about future revenues and expenses require significant judgment associated with the forecast of the performance of our solutions, customer retention rates and ability to secure and maintain our market position. Actual revenues

and costs could vary significantly from these forecasted amounts. If these solutions are not ultimately accepted by our customers and distributors, and there is no alternative future use for the technology; or if we fail to retain acquired customers or successfully market acquired brands, we could determine that some or all of the remaining \$167.2 million carrying value of our acquired intangible assets 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

The excess of the fair value of the purchase price over the fair values of the identifiable assets and liabilities from our acquisitions is recorded as goodwill. At December 31, 2018, we had \$1.8 billion in goodwill related to our acquisitions. Our revenues are derived from sales of our Digital Workspace solutions and Networking products, and related support. During 2018, we initiated an effort to streamline and simplify our product branding and packaging, which included naming updates to the portfolio to provide clarity on our offerings and unify our sales motions. The change resulted in the consolidation of our Content Collaboration product group with Workspace Services and renaming the new product group Digital Workspace. As a result, our two reporting units (Enterprise and Service Provider and Content Collaboration) were combined into one, consistent with how management reviews the operating results of the business. In connection with this change, we performed a qualitative goodwill assessment of the reporting units and determined there were no indicators of impairment during the third quarter of 2018. The change in reporting units did not result in a reallocation of goodwill or a change in 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, 2018 for additional information regarding our reportable segment.

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 and certain intangible assets impairment tests 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 and certain intangible assets recorded on our balance sheet may exist.

In the fourth quarter of 2018, we performed a qualitative assessment to determine whether further quantitative impairment testing for goodwill and certain intangible assets is necessary, and we refer to this assessment as the Qualitative Screen. In performing the Qualitative Screen, 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 and certain intangible assets. 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 and certain intangible assets 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. As a result of the Qualitative Screen, no further quantitative impairment test was deemed necessary. There was no impairment of goodwill as a result of the annual impairment tests completed during the fourth quarters of 2018 and 2017.

#### 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, 2018, we had \$121.9 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, 2018, we determined that an \$85.4 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. 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 or cash flows.

The 2017 Tax Act significantly revised the U.S. tax code by, in part but not limited to: reducing the U.S. corporate tax rate from 35% to 21% and imposing a mandatory one-time transition tax on certain un-repatriated earnings of foreign subsidiaries, modifying executive compensation deduction limitations, and repealing the deduction for domestic production activities. The SEC staff acknowledged the challenges companies face incorporating the effects of tax reform by their financial reporting deadlines. In response, on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118, or SAB 118, to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete accounting for certain income tax effects of the 2017 Tax Act. We completed the accounting for the tax effects of all of the provisions of the 2017 Tax Act within the required measurement period and as a result recorded adjustments to the previous provisional amounts. Adjustments of \$26.3 million were recorded during the year ended December 31, 2018, which include a tax benefit of \$21.9 million related to the finalization of the one-time transition tax on deemed repatriation of foreign income and a tax benefit of \$4.4 million related to the finalization of the remeasurement of the U.S. deferred tax assets and liabilities due to the maximum U.S. federal corporate rate reduction from 35% to 21%.

#### Convertible Senior Notes

In April 2014, we completed a private placement of our Convertible Notes due 2019 with a net share settlement feature, meaning that upon conversion, the principal amount will be settled in cash and the remaining amount, if any, will be settled in cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. In accordance with accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we first determine the carrying amount of the liability component by measuring the fair value of a similar liability that does not have an associated equity component. Then we determine the carrying amount of the equity component represented by the embedded conversion option by deducting the fair value of the liability component from the initial proceeds ascribed to the convertible debt instrument as a whole. Debt discount and debt issuance costs are amortized to interest expense using the effective interest method.

In accounting for the settlement of the Convertible Notes upon early conversions, we allocated the fair value of the settlement consideration remitted to the noteholders between the liability and equity components. The portion of the settlement consideration allocated to the extinguishment of the liability component was based on the fair value of that component immediately before extinguishment. A loss was recognized in the consolidated statements of income for the difference between the consideration allocated to the liability component and the sum of the carrying amount of the liability component and any unamortized debt issuance costs. Additionally, upon settlement of the converted principal, we derecognized the related unamortized discount and issuance costs. We allocated the remaining settlement consideration to the reacquisition of the equity component and recognized this amount as a reduction of Stockholders' equity.

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, 2018, 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,			2018	2017	2018	2017
	2018	2017	2016	Compared to 2017	Compared to 2016		
Revenues:							
Subscription	\$455,276	\$314,735	\$245,606	44.7	% 28.1	%	%
Product and license	734,495	766,777	810,975	(4.2)	) (5.4)	)	)
Support and services	1,784,132	1,743,174	1,679,499	2.3			3.8
Total net revenues	2,973,903	2,824,686	2,736,080	5.3			3.2
Cost of net revenues:							
Cost of subscription, support and services	266,495	250,602	228,080	6.3			9.9
Cost of product and license revenues	120,249	123,356	121,391	(2.5)	)		1.6
Amortization and impairment of product related intangible assets	47,059	65,688	55,418	(28.4)	)		18.5
Total cost of net revenues	433,803	439,646	404,889	(1.3)	)		8.6
Gross margin	2,540,100	2,385,040	2,331,191	6.5			2.3
Operating expenses:							
Research and development	439,984	415,801	395,373	5.8			5.2
Sales, marketing and services	1,074,234	1,006,112	976,339	6.8			3.0
General and administrative	315,343	302,565	316,838	4.2			(4.5)
Amortization and impairment of other intangible assets	15,854	17,190	15,076	(7.8)	)		14.0
Restructuring	16,725	72,375	67,401	(76.9)	)		7.4
Total operating expenses	1,862,140	1,814,043	1,771,027	2.7			2.4
Income from continuing operations	677,960	570,997	560,164	18.7			1.9
Interest income	40,030	27,808	16,686	44.0			66.7
Interest expense	(80,162)	(51,609)	(44,949)	55.3			14.8
Other (expense) income, net	(8,373)	3,150	(4,131)	(365.8)	)		(176.3)
Income from continuing operations before income taxes	629,455	550,346	527,770	14.4			4.3
Income tax expense	53,788	528,361	57,915	(89.8)	)		812.3
Income from continuing operations	\$575,667	\$21,985	\$469,855	2,518.5			(95.3)
(Loss) income from discontinued operations	—	(42,704)	66,257	(100.0)	)		(164.5)
Net income (loss)	\$575,667	\$(20,719)	\$536,112	(2,878.4)%			(103.9)%

## Revenues

Net revenues include Subscription, Product and license and Support and services revenues.

Subscription revenue relates to fees which are generally recognized ratably over the contractual term, and primarily consists of fees related to our Digital Workspace and Networking offerings. Our Digital Workspace and Networking subscriptions may be delivered via a cloud service, an on-premise license or in a hybrid cloud service and are inclusive of the related support as applicable. For our hybrid and on-premise subscription offerings, a portion of the revenue is recognized at a point in time. In addition, our CSP program provides subscription-based services in which the CSP partners host software services to their end users. The fees from the CSP program are recognized based on usage and as the CSP services are provided to their end users.

Product and license revenue primarily represents fees related to the perpetual licensing of the following major solutions:

Digital Workspace is primarily comprised of our Application Virtualization solutions which include Citrix Virtual Apps and Desktops, our unified endpoint management solutions, which include Citrix Endpoint Management, Citrix Content Collaboration, and Citrix Workspace; and



Networking products, which primarily include Citrix ADC and Citrix SD-WAN.

We offer incentive programs to our VADs and VARs to stimulate demand for our solutions. Product and license revenues associated with these programs are partially offset by these incentives to our VADs and VARs.

Support and services revenue consists of maintenance and support fees related to the following offerings:

Customer Success Services, which gives customers a choice of tiered support offerings that combine the elements of product version upgrades, guidance, enablement, support and proactive monitoring to help our customers and our partners fully realize their business goals. Fees associated with this offering are recognized ratably over the term of the contract; and

Hardware Maintenance fees for our perpetual Networking products, which include technical support and hardware and software maintenance, are recognized ratably over the contract term; and

Fees from consulting services related to the implementation of our solutions, which are recognized as the services are provided; and

Fees from product training and certification, which are recognized as the services are provided.

Year Ended December 31,			2018	2017
2018	2017	2016	Compared to 2017	Compared to 2016

(In thousands)

Revenues:

Subscription	\$455,276	\$314,735	\$245,606	\$140,541	\$69,129
Product and license	734,495	766,777	810,975	(32,282 )	(44,198 )
Support and services	1,784,132	1,743,174	1,679,499	40,958	63,675
Total net revenues	\$2,973,903	\$2,824,686	\$2,736,080	\$149,217	\$88,606

Subscription

Subscription revenue increased during 2018 compared to 2017 primarily due to increased customer adoption of our cloud-based solutions from our Digital Workspace offerings of \$99.1 million and Networking offerings of \$41.4 million delivered via the cloud. Also contributing to the increase is the upfront recognition of on-premise subscription revenue during fiscal year 2018 under the new revenue accounting guidance. Subscription revenue increased during 2017 compared to 2016 primarily due to increased customer adoption of our cloud-based solutions from our Digital Workspace offerings of \$61.5 million and from our Networking offerings of \$7.6 million. We currently expect our Subscription revenue to increase when comparing the first quarter of 2019 to the first quarter of 2018 as customers continue to shift to our cloud-based solutions.

Product and license

Product and license revenue decreased during 2018 when compared to 2017 primarily due to lower sales of our perpetual Digital Workspace solutions of \$22.8 million and lower sales of our perpetual Networking products of \$9.5 million as customers continue to shift to our cloud-based solutions. Product and license revenue decreased during 2017 when compared to 2016 due to lower sales of our perpetual Networking products of \$23.3 million and lower sales of our perpetual Digital Workspace solutions of \$21.2 million. We currently expect Product and license revenue to decrease when comparing the first quarter of 2019 to the first quarter of 2018 due to our continued transition to a subscription-based business model as customers continue to shift to our cloud-based solutions.

Support and services

Support and services revenue increased during 2018 compared to 2017 primarily due to increased sales of maintenance revenues from our Customer Success Services offerings. Support and services revenue increased during 2017 compared to 2016 primarily due to increased sales of maintenance revenues from our Customer Success Services offerings of \$39.9 million and higher sales of our maintenance revenues for our Networking products of \$23.3 million. We currently expect Support and services revenue to increase when comparing the first quarter of 2019 to the first quarter of 2018.

Deferred Revenue, Unbilled Revenue and Backlog

Deferred revenues are primarily comprised of Support and services revenue from maintenance fees, which include software and hardware maintenance, technical support related to our perpetual offerings and services revenue related to our



consulting contracts. Deferred revenues also include Subscription revenue from our Digital Workspace and cloud-based subscription offerings. Deferred revenue primarily consists of billings or payments received in advance of revenue recognition and is recognized in our consolidated balance sheets and consolidated statements of income as the revenue recognition criteria are met.

Unbilled revenue primarily represents contractually committed future billings under our subscription agreements that have not been invoiced and, accordingly, are not recorded in accounts receivable and deferred revenue within our consolidated financial statements.

Deferred revenue and unbilled revenue are influenced by several factors, including seasonality within the year, the specific timing, size and duration of customer subscription agreements, varying billing cycles of subscription agreements, and invoice timing. Fluctuations in unbilled revenue may not be a reliable indicator of future performance and the related revenue associated with these contractual commitments.

The following table presents the amounts of deferred and unbilled revenue (in thousands):

	December 31, 2018	December 31, 2017	2018 compared to 2017
Deferred revenue	\$ 1,834,572	\$ 1,864,243	\$(29,671 )
Unbilled revenue	338,463	80,074	258,389

Deferred revenues decreased approximately \$29.7 million as of December 31, 2018 compared to December 31, 2017 primarily due to the \$99.9 million cumulative effect adjustment from adoption of the new revenue recognition accounting standard, partially offset by an increase of \$79.4 million related to increased customer adoption of our cloud-based subscription offerings. Unbilled revenue increased primarily due to an increase in multi-year subscription agreements as a result of an increase in customer adoption of our cloud-based subscription offerings. See Note 2 to our consolidated financial statements for detailed information related to our adoption of the new revenue standard.

While it is generally our practice to promptly ship our products upon receipt of properly finalized orders, at any given time, we have confirmed product license orders that have not shipped and are unfulfilled. We refer to those unfulfilled product license orders at the end of a given period as “product and license backlog.” As of December 31, 2018 and 2017, the amount of product and license backlog was not material. 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 47.0% of our net revenues for the year ended December 31, 2018 and 46.3% of our net revenues for the years ended December 31, 2017 and 2016, respectively. The change in our international revenues as a percentage of our net revenues for the periods presented is not significant. 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, 2018.

#### Cost of Net Revenues

	Year Ended December 31,			2018	2017
	2018	2017	2016	Compared to 2017	Compared to 2016
	(In thousands)				
Cost of subscription, support and services	\$266,495	\$250,602	\$228,080	\$ 15,893	\$ 22,522
Cost of product and license revenues	120,249	123,356	121,391	(3,107 )	1,965
Amortization and impairment of product related intangible assets	47,059	65,688	55,418	(18,629 )	10,270
Total cost of net revenues	\$433,803	\$439,646	\$404,889	\$(5,843 )	\$ 34,757

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



Cost of subscription, support and services revenues increased during 2018 when compared to 2017 primarily due to an increase in sales of our subscription offerings of \$17.8 million and professional services of \$5.6 million, partially offset by a decrease in costs of providing technical support of \$7.4 million, primarily due to reductions in headcount. Cost of subscription, support and services revenues increased during 2017 compared to 2016 primarily due to an increase in sales of our software maintenance of \$12.8 million from our Customer Success Services offering, and an increase in sales of our Digital Workspace offerings delivered via the cloud of \$7.9 million. We currently expect Cost of subscription, support and services revenues to increase when comparing the first quarter of 2019 to the first quarter of 2018, consistent with the expected increases in Subscription revenue and Support and services revenue as discussed above.

Cost of product and license revenues decreased during 2018 when compared to 2017 primarily due to lower overall sales of our perpetual Networking products, which contain hardware components that have a higher cost than our software products. Cost of product and license revenues increased during 2017 when compared to 2016 primarily due to royalties from our

Digital Workspace solutions. We currently expect Cost of product and license revenues to decrease when comparing the first quarter of 2019 to the first quarter of 2018.

Amortization and impairment of product related intangible assets decreased during 2018 as compared to 2017 primarily due to the impairments of certain acquired intangible assets in 2017. Amortization and impairment of product related intangible assets increased during 2017 as compared to 2016 primarily due to the impairments of certain acquired intangible assets in 2017.

#### Gross Margin

Gross margin as a percent of revenue was 85.4% for 2018, 84.4% for 2017 and 85.2% for 2016. Gross margin increased during 2018 as compared to 2017 primarily due to the impairment of certain product related intangible assets in 2017. Gross margin remained consistent when comparing 2017 to 2016.

#### Operating Expenses

##### Foreign Currency Impact on Operating Expenses

The functional currency for all of our wholly-owned foreign subsidiaries is the U.S. dollar. 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 12 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. Conversely, if the dollar is strong, foreign currency denominated expenses will be lower. These lower expenses will in turn be partially offset by the losses incurred from 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,			2018	2017
	2018	2017	2016	Compared to 2017	Compared to 2016
	(In thousands)				
Research and development	\$439,984	\$415,801	\$395,373	\$ 24,183	\$ 20,428

Research and development expenses consist primarily of personnel related costs, facility and equipment costs and cloud capacity costs directly related to our research and development activities. We expense substantially all development costs included in the research and development of our solutions.

Research and development expenses increased during 2018 as compared to 2017 primarily due to an increase in stock-based compensation of \$18.8 million and an increase in cloud capacity costs of \$9.0 million.

Research and development expenses increased during 2017 as compared to 2016 primarily due to an increase in stock-based compensation of \$8.7 million, an increase in compensation and other employee-related costs of \$8.6

million, and an increase in cloud capacity costs of \$7.1 million. The increase in compensation and other employee-related costs was primarily related to a net increase in headcount prior to the restructuring program announced in October 2017 intended to accelerate the transformation to a cloud-based subscription business, increase strategic focus, and improve operational efficiency. These increases are partially offset by a decrease in facility and equipment costs of \$3.7 million.

Sales, Marketing and Services Expenses

Year Ended December 31,			2018	2017
2018	2017	2016	Compared to 2017	Compared to 2016

(In thousands)

Sales, marketing and services	\$1,074,234	\$1,006,112	\$976,339	\$ 68,122	\$ 29,773
-------------------------------	-------------	-------------	-----------	-----------	-----------

Sales, marketing and services expenses consist 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, information systems and pre-demonstration related to cloud capacity costs that are directly related to our sales, marketing and services activities.

Sales, marketing and services expenses increased during 2018 compared to 2017 primarily due to an increase in compensation and other employee-related costs of \$46.4 million due to an increase in sales headcount from our investment in sales capacity and demand generation, an increase in marketing programs of \$24.8 million and an increase stock-based compensation of \$17.2 million. These increases were partially offset by a decrease in variable compensation of \$31.1 million mostly as a result of accounting for contract acquisition costs under the new revenue accounting guidance, which was adopted on January 1, 2018. See Note 2 to our consolidated financial statements for detailed information related to our adoption of the new revenue standard.

Sales, marketing and services expenses increased during 2017 compared to 2016 primarily due to an increase in compensation and other employee-related costs, including variable compensation of \$35.1 million resulting from a net increase in headcount, and an increase in cloud capacity costs of \$10.8 million. The increase in compensation and other employee-related costs was primarily related to a net increase in headcount prior to the restructuring program announced in October 2017 intended to accelerate the transformation to a cloud-based subscription business, increase strategic focus, and improve operational efficiency. These increases are partially offset by a decrease in certain facility and depreciation costs of \$14.9 million.

General and Administrative Expenses

Year Ended December 31,			2018	2017
2018	2017	2016	Compared to 2017	Compared to 2016

(In thousands)

General and administrative	\$315,343	\$302,565	\$316,838	\$ 12,778	\$(14,273 )
----------------------------	-----------	-----------	-----------	-----------	-------------

General and administrative expenses consist 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 2018 compared to 2017 primarily due to an increase in professional fees of \$8.7 million and an increase in facilities costs of \$3.5 million.

General and administrative expenses decreased during 2017 compared to 2016 primarily due to a decrease in compensation and other employee-related costs of \$11.5 million and a decrease in stock-based compensation of \$5.1 million.

Amortization and Impairment of Other Intangible Assets

Year Ended December 31,			2018	2017
2018	2017	2016	Compared to 2017	Compared to 2016

(In thousands)

Amortization and impairment of other intangible assets	\$15,854	\$17,190	\$15,076	\$(1,336 )	\$ 2,114
--	----------	----------	----------	------------	----------

Amortization and impairment of other intangible assets consists of amortization of customer relationships, trade names and covenants not to compete primarily related to our acquisitions.

Amortization and impairment of other intangible assets decreased when comparing 2018 to 2017 primarily due to impairments of certain intangible assets related to certain non-core products during 2017. Amortization and impairment of other



intangible assets increased when comparing 2017 to 2016 primarily due to impairments of certain intangible assets related to certain non-core products during 2017.

As of December 31, 2018, we had unamortized other identified intangible assets with estimable useful lives in the net amount of \$23.0 million. For more information regarding our acquisitions see, “— Overview” and Note 4 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018.

#### Restructuring Expenses

Year Ended December 31,			2018	2017
2018	2017	2016	Compared to 2017	Compared to 2016

(In thousands)

Restructuring \$16,725 \$72,375 \$67,401 \$(55,650) \$ 4,974

During the years ended December 31, 2018 and 2017, we incurred costs of \$2.5 million and \$53.7 million, respectively, related to initiatives intended to accelerate the transformation to a cloud-based subscription business, increase strategic focus, and improve operational efficiency. The majority of the activities related to this program were substantially completed by the end of 2018.

In connection with our restructuring initiatives, we had previously vacated or consolidated properties and subsequently reassessed our obligations on non-cancelable leases. The fair value estimate of these non-cancelable leases is based on the contractual lease costs over the remaining term, partially offset by estimated future sublease rental income. During the year ended December 31, 2018, we incurred costs of \$14.2 million related to the consolidation of leased facilities. During the year ended December 31, 2017, we incurred costs of \$8.1 million related to operational initiatives designed to improve infrastructure scalability and cost saving efficiencies. The charges primarily related to employee severance. No costs were incurred during the year ended December 31, 2016. The charges related to employee severance were substantially completed as of the first quarter of 2018; however, we could continue to incur lease losses related to the consolidation of leased facilities during fiscal year 2019.

During the years ended December 31, 2017 and 2016, we incurred costs of \$1.9 million and \$44.5 million, respectively, primarily related to our announced plan in November 2015 to simplify our enterprise go-to-market motion and roles while improving coverage, reflect changes in our product focus, and balance resources with demand across our marketing, general and administration areas. Total costs incurred during the year ended December 31, 2018 were not material. The charges are primarily related to employee severance, outplacement, professional service fees, and facility closing costs. The majority of the activities related to this program were substantially completed as of the end of the first quarter of 2016.

During the years ended December 31, 2017 and 2016, we recorded charges of \$8.7 million and \$24.0 million, respectively, related to our announced plan in January 2015 to increase strategic focus and operational efficiency. Total costs incurred during the year ended December 31, 2018 were not material. The charges primarily related to the severance and other costs directly related to the reduction of our workforce and consolidation of leased facilities. The majority of the activities related to this program were substantially completed by the end of 2015.

For more information regarding our restructuring see Note 17 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018.

#### 2019 Operating Expense Outlook

When comparing the first quarter of 2019 to the fourth quarter of 2018, we currently expect operating expenses to increase in absolute dollars with respect to sales, marketing and services expenses due to our continued investment in demand generation, sales capacity in order to support growth and transition and cloud infrastructure. We expect an increase in absolute dollars with respect to research and development expenses as we invest more in innovation capacity, as well as an increase in absolute dollars in general and administrative expenses.

#### Interest income

Year Ended December 31,			2018	2017
2018	2017	2016	Compared to 2017	Compared to 2016

(In thousands)

Interest income \$40,030 \$27,808 \$16,686 \$ 12,222 \$ 11,122

41

---

Interest income primarily consists of interest earned on our cash, cash equivalents and investment balances. Interest income increased during 2018 compared to 2017 primarily due to higher yields on investments as a result of an increase in interest rates. Interest income increased during 2017 compared to 2016 primarily due to overall higher average cash, cash equivalents and investment balances and higher yields on investments as a result of an increase in interest rates. See Note 5 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for investment information.

#### Interest Expense

Year Ended December 31,			2018	2017
2018	2017	2016	Compared to 2017	Compared to 2016

(In thousands)

Interest expense \$(80,162) \$(51,609) \$(44,949) \$(28,553 ) \$(6,660 )

Interest expense primarily consists of interest paid on our Convertible Notes, 2027 Notes and credit facility. When comparing 2018 and 2017, the increase is primarily due to borrowings related to our 2027 Notes. When comparing 2017 to 2016, the increase is primarily due to the issuance of our 2027 Notes in 2017. For more information regarding our debt, see Note 13 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018.

#### Other (Expense) Income, net

Year Ended December 31,			2018	2017
2018	2017	2016	Compared to 2017	Compared to 2016

(In thousands)

Other (expense) income, net \$(8,373) \$3,150 \$(4,131) \$(11,523 ) \$ 7,281

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

The change in Other (expense) income, net when comparing 2018 to 2017 is primarily driven by realized losses in our available-for-sale investment portfolio of \$6.3 million, mostly due to a decline in fair value considered other-than-temporary and an increase in net losses on remeasurement and settlement of foreign currency transactions of \$3.7 million. The change in Other income (expense), net when comparing 2017 to 2016 is primarily driven by an increase in net gains on remeasurement and settlements of foreign currency transactions.

#### 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. 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. On December 22, 2017, President Donald Trump signed the Tax Cuts and Jobs Act into law effective January 1, 2018. The 2017 Tax Act significantly revised the U.S. tax code by, in part but not limited to: reducing the U.S. corporate maximum tax rate from 35% to 21%, imposing a mandatory one-time transition tax on certain un-repatriated earnings of foreign subsidiaries, modifying executive compensation deduction limitations, and repealing the deduction for domestic production activities. Under Accounting Standards Codification 740, Income Taxes, we must recognize the effects of tax law changes in the period in which the new legislation is enacted.

We are subject to tax in the U.S. and in multiple foreign tax jurisdictions. Our U.S. liquidity needs are currently satisfied using cash flows generated from our U.S. operations, borrowings, or both. We also utilize a variety of tax planning strategies in an effort to ensure that our worldwide cash is available in locations in which it is needed. Prior to 2017, we did not recognize a deferred tax liability related to undistributed foreign earnings of our subsidiaries because such earnings were considered to be indefinitely reinvested in our foreign operations, or were remitted substantially free of U.S. tax. Under the 2017 Tax Act, all foreign earnings are subject to U.S. taxation. As a result, we expect to repatriate a substantial portion of our foreign earnings over time, to the extent that the foreign earnings are not restricted by local laws or result in significant incremental costs associated with repatriating the foreign earnings.





The SEC staff acknowledged the challenges companies face incorporating the effects of tax reform by their financial reporting deadlines. In response, on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete accounting for certain income tax effects of the 2017 Tax Act. During the period ended December 31, 2018, we completed the accounting for the tax effects of all of the provisions of the 2017 Tax Act within the required measurement period and as a result recorded adjustments to the previous provisional amounts.

Our effective tax rate was approximately 8.5% for the year ended December 31, 2018 and 96.0% for the year ended December 31, 2017. The decrease in the effective tax rate when comparing the year ended December 31, 2018 to the year ended December 31, 2017 was primarily due to accounting for the estimated tax impact of the 2017 Tax Act and the separation of the GoTo Business. Specifically, results from 2017 include a \$364.6 million provisional income tax charge for the transition tax on deemed repatriation of deferred foreign income, and a \$64.8 million provisional income tax charge for the remeasurement of U.S. deferred tax assets and liabilities because of the maximum U.S. federal corporate rate reduction from 35% to 21%. We also recorded a \$48.6 million income tax charge to establish a valuation allowance primarily due to a change in expectation of realizability of state R&D credits arising from the separation of the GoTo Business. During the year ended December 31, 2018, we recorded a tax benefit of \$21.9 million related to the finalization of the one-time transition tax on deemed repatriation of foreign income and a tax benefit of \$4.4 million related to the finalization of the remeasurement of the U.S. deferred tax assets and liabilities due to the maximum U.S. federal corporate rate reduction from 35% to 21%.

As of December 31, 2018, our net unrecognized tax benefits totaled approximately \$89.9 million compared to \$77.8 million as of December 31, 2017. All amounts included in this balance affect the annual effective tax rate. As of the year ended December 31, 2018, we accrued \$3.9 million for the payment of interest on uncertain tax positions.

We and one or more of our subsidiaries are subject to U.S. federal income taxes in the United States, as well as income taxes of multiple state and foreign jurisdictions. We are not currently under examination by the United States Internal Revenue Service. With few exceptions, we are generally not subject to examination for state and local income tax, or in non-U.S. jurisdictions by tax authorities for years prior to 2015.

On July 24, 2018, the U.S. Ninth Circuit Court of Appeals overturned the U.S. Tax Court’s unanimous decision in *Altera v. Commissioner*, where the Tax Court held the Treasury regulation requiring participants in a qualified cost sharing arrangement share stock-based compensation costs to be invalid. On August 7, 2018, the U.S. Ninth Circuit Court of Appeals, on its own motion, withdrew its July 24, 2018 opinion to allow time for the reconstituted panel to confer. Given the increased uncertainty as to the Ninth Circuit's eventual ruling and the impact it will have on the Internal Revenue Service’s ability to challenge the technical merits of our position, we accrued amounts for this uncertain tax position as of the year ended December 31, 2018.

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. As of December 31, 2018, we had \$121.9 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. As of December 31, 2018, we determined that an \$85.4 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.



### Liquidity and Capital Resources

During 2018, we generated continuing operating cash flows of \$1.04 billion. These operating cash flows related primarily to net income from continuing operations of \$575.7 million, adjusted for, among other things, non-cash charges, stock-based compensation expense of \$203.6 million, depreciation and amortization expenses of \$141.9 million and amortization of debt discount and transaction costs of \$39.1 million. Also contributing to these cash inflows was a change in operating assets and liabilities of \$30.3 million, net of effects of acquisitions. The change in our net operating assets and liabilities was primarily a result of changes in deferred revenue of \$69.5 million, accrued expenses and other current liabilities of \$37.0 million mostly due to employee-related accruals, and changes in net accounts receivable of \$18.7 million driven by an increase in collections from higher bookings. These inflows were partially offset by an outflow in net income taxes of \$57.0 million due a decrease in income taxes payable and an increase in prepaid taxes, and changes in other assets of \$33.6 million primarily due to an increase in capitalized commissions as a result of the new revenue standard. Our continuing operations investing activities provided \$132.2 million of cash consisting primarily of net proceeds from investments of \$456.9 million, partially offset by cash paid for acquisitions of \$248.9 million and cash paid for the purchase of property and equipment of \$69.4 million. Our continuing operations financing activities used cash of \$1.66 billion, primarily due to stock repurchases of \$1.26 billion, payments on early redemptions of convertible notes of \$273.0 million, cash paid for tax withholding on vested stock awards of \$71.6 million, and cash dividends paid on common stock of \$46.8 million.

During 2017, we generated continuing operating cash flows of \$964.3 million. These operating cash flows related primarily to income from continuing operations of \$22.0 million, adjusted for, among other things, non-cash charges, depreciation and amortization expenses of \$170.0 million, stock-based compensation expense of \$165.1 million, deferred

income tax expense of \$94.2 million, and amortization of debt discount and transaction costs of \$38.3 million. Also contributing to these cash inflows was a change in operating assets and liabilities of \$470.5 million, net of effects of acquisitions. The change in our net operating assets and liabilities was primarily a result of changes in net income taxes of net of \$318.8 million due to tax reform, and changes in deferred revenue of \$174.4 million. Our continuing operations investing activities used \$60.0 million of cash consisting primarily of cash paid for net purchases of investments of \$86.4 million, cash paid for the purchase of property and equipment of \$80.9 million, cash paid for acquisitions of \$60.4 million, and cash paid for licensing agreements and technology of \$7.4 million. Our continuing operations financing activities used cash of \$694.4 million primarily due to stock repurchases of \$1.17 billion, amounts paid for, but not settled under our accelerated stock repurchase program of \$150.0 million, cash paid for tax withholding on vested stock awards of \$80.0 million and the transfer of cash to the GoTo Business resulting from the separation of \$28.5 million. This financing cash outflow was partially offset by proceeds by proceeds from the 2027 Notes of \$741.0 million, net of issuance costs.

#### Senior Notes

On November 15, 2017, we issued \$750.0 million of the 2027 Notes. The 2027 Notes accrue interest at a rate of 4.500% per annum. Interest on the 2027 Notes is due semi-annually on June 1 and December 1 of each year, beginning on June 1, 2018. The net proceeds from this offering were approximately \$741.0 million, after deducting the underwriting discount and estimated offering expenses payable by us. Net proceeds from this offering were used to repurchase shares of our common stock through an ASR transaction which we entered into with the ASR counterparty on November 13, 2017. The 2027 Notes will mature on December 1, 2027, unless redeemed or repurchased in accordance with their terms prior to such date. We may redeem the 2027 Notes at our option at any time in whole or from time to time in part prior to September 1, 2027 at a redemption price equal to the greater of (i) 100% of the aggregate principal amount of the 2027 Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments under such 2027 Notes, plus in each case, accrued and unpaid interest to, but excluding, the redemption date. Among other terms, under certain circumstances, holders of the 2027 Notes may require us to repurchase their 2027 Notes upon the occurrence of a change of control prior to maturity for cash at a repurchase price equal to 101% of the principal amount of the 2027 Notes to be repurchased plus accrued and unpaid interest to, but excluding, the repurchase date. See Note 13 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for additional details on the 2027 Notes.

#### Credit Facility

On January 7, 2015, we entered into a credit agreement, or the Credit Agreement, with Bank of America, N.A., as Administrative Agent, and the other lenders party thereto from time to time collectively, the Lenders. The Credit Agreement provides for a \$250.0 million unsecured revolving credit facility for a term of five years, of which we have drawn and repaid \$165.0 million during the year ended December 31, 2017. As of December 31, 2018, there were no outstanding borrowings under this Credit Agreement and the entire \$250.0 million credit line remains available for borrowing. We may elect to increase the revolving credit facility by up to \$250.0 million if existing or new lenders provide additional revolving commitments in accordance with the terms of the Credit Agreement. The proceeds of borrowings under the Credit Agreement may be used for working capital and general corporate purposes, including acquisitions. Borrowings under the Credit Agreement will bear

interest at a rate equal to either (a) a customary London interbank offered rate formula or (b) a customary base rate formula, plus the applicable margin with respect thereto, in each case as set forth in the Credit Agreement.

The Credit Agreement requires us to maintain a consolidated leverage ratio of not more than 3.5:1.0 and a consolidated interest coverage ratio of not less than 3.0:1.0. The Credit Agreement includes customary events of default, with corresponding grace periods in certain circumstances, including, without limitation, payment defaults, cross-defaults, the occurrence of a change of control and bankruptcy-related defaults. The lenders under the credit agreement are entitled to accelerate repayment of the loans under the Credit Agreement upon the occurrence of any of the events of default. In addition, the Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict our ability to grant liens, merge or consolidate, dispose of all or substantially all of our assets, change our business and incur subsidiary indebtedness, in each case subject to customary exceptions for a credit facility of this size and type. In addition, the Credit Agreement contains customary representations and warranties. See Note 13 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for additional details on our Credit Agreement.

#### Convertible Senior Notes

In April 2014, we completed a private placement of \$1.44 billion principal amount of 0.500% Convertible Senior Notes due 2019, or the Convertible Notes. The net proceeds from this offering were approximately \$1.42 billion (including the proceeds from the Over-Allotment Option), after deducting the initial purchasers' discounts and commissions and the offering expenses payable by us. We used approximately \$82.6 million of the net proceeds to pay the cost of certain bond hedges entered into in connection with the offering (after such cost was partially offset by the proceeds to us from certain warrant transactions).

We used the remainder of the net proceeds from the offering and a portion of our existing cash and investments to purchase an aggregate of approximately \$1.5 billion of our common stock under our share repurchase program. We purchased approximately \$101.0 million of our common stock from certain purchasers of the Convertible Notes in privately negotiated transactions concurrently with the closing of the offering, and purchased approximately \$1.4 billion of our common stock through an accelerated share repurchase transaction in 2014, which we entered into with Citibank, N.A., or Citibank, on April 25, 2014.

The last reported sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on September 30, 2018 was greater than or equal to \$93.48 (130% of the conversion price) on each applicable trading day. As a result, each holder of our Convertible Notes had the right to convert any portion of their Convertible Notes (in minimum denominations of \$1,000 in principal amount or an integral multiple thereof) during the fourth quarter of 2018. The sales price condition was also met for the quarter ended June 30, 2018. As of October 15, 2018, we received conversion notices from noteholders with respect to \$273.0 million in aggregate principal amount of Convertible Notes requesting conversion as a result of the sales price condition having been met. Accordingly, in accordance with the terms of the Convertible Notes, in the fourth quarter of 2018, we made cash payments of this aggregate principal amount and delivered 1.3 million newly issued shares of our common stock in respect of the remainder of our conversion obligation in excess of the aggregate principal amount of the Convertible Notes being redeemed, in full satisfaction of such converted notes. We received shares of our common stock under the Bond Hedges that offset the issuance of shares of common stock upon conversion of the Convertible Notes. In addition, on or after October 15, 2018 until the close of business on the second scheduled trading day immediately preceding the April 15, 2019 maturity date, holders of the Convertible Notes have the right to convert their notes at any time, regardless of whether the sales price condition is met. Any conversions with respect to conversion notices received by us on or after October 15, 2018 will settle on the maturity date. As of December 31, 2018, the outstanding balance, net of discount, of \$1.16 billion of the Convertible Notes is included current liabilities and the difference between the face value and carrying value of \$8.1 million was included in temporary equity in the accompanying consolidated balance sheets.

See Note 13 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for additional details on the Convertible Notes and the related bond hedges and warrant transactions.

Historically, significant portions of our cash inflows were generated by our operations. We currently expect this trend to continue in 2019. 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 and service our short term debt obligations (including repayment of the Convertible Notes on the maturity date) 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 continue to seek to raise additional funds through the issuance of debt or equity securities for larger acquisitions, potential redemption of our Convertible Notes and for general corporate purposes.

## Cash, Cash Equivalents and Investments

December 31,		2018
2018	2017	Compared to 2017

(In thousands)

Cash, cash equivalents and investments	\$1,776,700	\$2,731,974	\$(955,274)
--	-------------	-------------	-------------

The decrease in cash, cash equivalents and investments at December 31, 2018 as compared to December 31, 2017, is primarily due to cash paid for stock repurchases of \$1.26 billion, repayments on early conversion of our Convertible Notes of \$273.0 million, cash paid for acquisitions, net of cash acquired, of \$248.9 million, cash paid for tax withholding on vested stock awards of \$71.6 million, purchases of property and equipment of \$69.4 million, and cash dividends paid on common stock of \$46.8 million. These decreases are partially offset by cash provided by our operating activities of \$1.04 billion. As of December 31, 2018, \$702.8 million of the \$1.78 billion of cash, cash equivalents and investments was held by our foreign subsidiaries. As a result of the 2017 Tax Act, the cash, cash equivalents and investments held by our foreign subsidiaries can be repatriated without incurring any additional U.S. federal tax. Upon repatriation of these funds, we could be subject to foreign and U.S. state income taxes, as well as additional foreign withholding taxes. The amount of taxes due is dependent on the amount and manner of the repatriation, as well as the locations from which the funds are repatriated and received. 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.

## Stock Repurchase Program

Our Board of Directors authorized an ongoing stock repurchase program, of which \$1.7 billion was approved in November 2017 and \$750.0 million was approved in October 2018. 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, 2018, approximately \$767.9 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, 2018. A portion of the funds used to repurchase stock over the course of the program was provided by net proceeds from the 2027 Notes and Convertible Notes offerings, as well as proceeds from employee stock awards and the related tax benefit.

We are authorized to make open market purchases of our common stock using general corporate funds through open market purchases or pursuant to a Rule 10b5-1 plan or in privately negotiated transactions.

During the year ended December 31, 2018, we expended approximately \$511.2 million on open market purchases under the stock repurchase program, repurchasing 4,730,542 shares of outstanding common stock at an average price of \$108.05.

In addition to the repurchases described above, in 2017, we used the net proceeds from our 2027 Notes offering and existing cash and investments to repurchase an aggregate of approximately \$750.0 million of our common stock as authorized under our stock repurchase program. We paid \$750.0 million to the ASR counterparty under the ASR agreement and received approximately 7.1 million shares of our common stock from the ASR counterparty, which represented 80 percent of the shares to be repurchased pursuant to the ASR agreement. The total number of shares of common stock that we repurchased under the ASR agreement was based on the average of the daily volume-weighted average prices of our common stock during the term of the ASR agreement, less a discount. Final settlement of the ASR agreement was completed in January 2018 and we received delivery of an additional 1.4 million shares of our common stock.

In February 2018, we entered into an ASR transaction with a counterparty to pay an aggregate of \$750.0 million in exchange for the immediate delivery of approximately 6.5 million shares of our common stock based on current market prices. The purchase price per share under the ASR was based on the volume-weighted average price of our common stock during the term of the ASR, less a discount. The ASR was entered into pursuant to our existing share repurchase program. Final settlement of the ASR agreement was completed in April 2018 and we received delivery of an additional 1.6 million additional shares of our common stock.

See Note 13 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for detailed information on our 2027 Notes offering and the transactions related thereto.

During the year ended December 31, 2017, we expended approximately \$575.0 million on open market purchases, repurchasing 7,384,368 shares of outstanding common stock at an average price of \$77.86.

During the year ended December 31, 2016, we expended approximately \$28.7 million on open market purchases, repurchasing 426,300 shares of outstanding common stock at an average price of \$67.30.



### Shares for Tax Withholding

During the years ended December 31, 2018, 2017, and 2016, we withheld 739,522 shares, 974,501 shares and 830,155 shares, respectively, from equity awards that vested. Amounts withheld to satisfy minimum tax withholding obligations that arose on the vesting of equity awards was \$71.6 million for 2018, \$80.0 million for 2017 and \$66.6 million for 2016. 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, 2018.

### 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, 2018 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	3-5 Years	More than 5 Years
Operating lease obligations <sup>(1)</sup>	\$301,396	\$ 57,122	\$89,339	\$67,314	\$ 87,621
Convertible senior notes <sup>(2)</sup>	1,164,497	1,164,497	—	—	—
Senior Notes due 2027 <sup>(3)</sup>	750,000	—	—	—	750,000
Purchase obligations <sup>(4)</sup>	71,888	46,888	25,000	—	—
Transition tax payable <sup>(5)</sup>	285,627	—	53,540	78,500	153,587
Total contractual obligations <sup>(6)</sup>	\$2,573,408	\$ 1,268,507	\$167,879	\$145,814	\$ 991,208

<sup>(1)</sup> The amounts in the table above include \$64.3 million in exited facility costs related to restructuring activities. During the second quarter of 2014, we completed a private placement of \$1.4 billion principal amount of 0.5% Convertible Senior Notes due 2019. The amount above represents the principal balance to be repaid in April 2019.

<sup>(2)</sup> See Note 13 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for detailed information on the Convertible Notes offering and the transactions related thereto.

<sup>(3)</sup> During the fourth quarter of 2017, we completed the issuance of \$750.0 million principal amount of 4.5% Senior Notes due 2027. The amount above represents the balance to be repaid. See Note 13 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for detailed information on the 2027 Notes offering and the transactions related thereto.

<sup>(4)</sup> Purchase obligations represent non-cancelable commitments to purchase inventory ordered before year-end 2018 of approximately \$5.3 million and a contingent obligation to purchase inventory of approximately \$16.6 million. It also includes minimum purchase commitments for our use of certain cloud services with a third-party provider of \$50.0 million.

<sup>(5)</sup> Represents transition tax payable on deemed repatriation of deferred foreign income incurred as a result of the 2017 Tax Act. See Note 11 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018 for further information.

<sup>(6)</sup> Total contractual obligations do not include agreements where our commitment is variable in nature or where cancellations without payment provisions exist and excludes \$89.9 million of liabilities related to uncertain tax 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, 2018 for further information.

As of December 31, 2018, we did not have any individually material capital lease obligations or other material long-term commitments reflected on our consolidated balance sheets.

#### Off-Balance Sheet Arrangements

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

47

---

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion about our market risk includes “forward-looking statements” that involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. The analysis methods we used to assess and mitigate risk discussed below should not be considered projections of future events, gains or losses.

We are exposed to financial market risks, including changes in foreign currency exchange rates and interest rates that could adversely affect our results of operations or financial condition. To mitigate foreign currency risk, we utilize derivative financial instruments. The counterparties to our derivative instruments are major financial institutions. All of the potential changes noted below are based on sensitivity analyses performed on our financial position as of December 31, 2018. Actual results could differ materially.

Discussions of our accounting policies for derivatives and hedging activities are included in Notes 2 and 14 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2018.

### Exposure to Exchange Rates

A substantial majority of our overseas expense and capital purchasing activities are transacted in local currencies, including Euros, British pounds sterling, Japanese yen, Australian dollars, Swiss francs, Indian rupees, Hong Kong dollars, Canadian dollars, Singapore dollars and Chinese yuan renminbi. To reduce the volatility of future cash flows caused by changes in currency exchange rates, we have established a hedging program. We use foreign currency forward contracts to hedge certain forecasted foreign currency expenditures. Our hedging program significantly reduces, but does not entirely eliminate, the impact of currency exchange rate movements.

At December 31, 2018 and 2017, we had in place foreign currency forward sale contracts with a notional amount of \$141.9 million and \$128.1 million, respectively, and foreign currency forward purchase contracts with a notional amount of \$119.5 million and \$113.6 million, respectively. At December 31, 2018, these contracts had an aggregate fair value liability of \$1.8 million and at December 31, 2017, these contracts had an aggregate fair value asset of \$1.7 million. Based on a hypothetical 10% appreciation of the U.S. dollar from December 31, 2018 market rates, the fair value of our foreign currency forward contracts would increase by \$2.4 million. Conversely, a hypothetical 10% depreciation of the U.S. dollar from December 31, 2018 market rates would decrease the fair value of our foreign currency forward contracts by \$2.4 million. In these hypothetical movements, foreign operating costs would move in the opposite direction. This calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. In addition to the direct effects of changes in exchange rates quantified above, changes in exchange rates could also change the dollar value of sales and affect the volume of sales as the prices of our competitors’ products become more or less attractive. We do not anticipate any material adverse impact to our consolidated financial position, results of operations, or cash flows as a result of these foreign exchange forward contracts.

### Exposure to Interest Rates

We have interest rate exposures resulting from our interest-based available-for-sale investments. We maintain available-for-sale investments in debt securities and we limit the amount of credit exposure to any one issuer or type of instrument. The securities in our investment portfolio are not leveraged. The securities classified as available-for-sale are subject to interest rate risk. The modeling technique used measures the change in fair values arising from an immediate hypothetical shift in market interest rates and assumes that ending fair values include principal plus accrued interest and reinvestment income. If market interest rates were to increase by 100 basis points from December 31, 2018 and 2017 levels, the fair value of the available-for-sale portfolio would decline by approximately \$9.2 million and \$17.1 million, respectively. If market interest rates were to decrease by 100 basis points from December 31, 2018 and 2017 levels, the fair value of the available-for-sale portfolio would increase by approximately \$9.2 million and \$17.0 million, respectively. These amounts are determined by considering the impact of the hypothetical interest rate movements on our available-for-sale investment portfolios. This analysis does not consider the effect of credit risk as a result of the changes in overall economic activity that could exist in such an environment.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and related financial statement schedule, together with the report of independent registered certified public accounting firm, appear at pages F-1 through F-46 of this Annual Report on Form 10-K for

the year ended December 31, 2018.

48

---

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of December 31, 2018, our management, with the participation of our President and Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that, as of December 31, 2018, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2018, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f). Our internal control system was designed to provide reasonable assurance to our management and the Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, our management used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, or the COSO criteria. Based on our assessment we believe that, as of December 31, 2018, our internal control over financial reporting is effective based on those criteria. The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by Ernst & Young LLP, an independent registered certified public accounting firm, as stated in their report which appears below.

Report of Independent Registered Certified Public Accounting Firm

The Stockholders and Board of Directors of Citrix Systems, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Citrix Systems, Inc.'s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Citrix Systems, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) and our report dated February 15, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Boca Raton, Florida

February 15, 2019



## ITEM 9B. OTHER INFORMATION

Our policy governing transactions in Citrix securities by our directors, officers and employees permits our officers, directors and certain other persons to enter into trading plans complying with Rule 10b5-1 under the Exchange Act. We have been advised that David Henshall, our President and Chief Executive Officer, and Drew Del Matto, our Executive Vice President and Chief Financial Officer, each entered into a new trading plan in the fourth quarter of 2018 in accordance with Rule 10b5-1 and our policy governing transactions in our securities. We undertake no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended December 31, 2018.

### ITEM 11. EXECUTIVE COMPENSATION

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended December 31, 2018.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended December 31, 2018.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended December 31, 2018.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended December 31, 2018.



PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Consolidated Financial Statements.

For a list of the consolidated financial information included herein, see page F-1.

2. Financial Statement Schedules.

All other schedules have been omitted as the required information is not applicable or the information is presented in the Consolidated Financial Statements or notes thereto under Item 8 herein. The following consolidated financial statement schedule is included in Item 8:

Valuation and Qualifying Accounts

3. List of Exhibits.

Exhibit No. Description

- 2.1 Agreement and Plan of Merger, dated as of July 26, 2016, among Citrix Systems, Inc., GetGo, Inc., LogMeIn, Inc. and Lithium Merger Sub, Inc. (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 28, 2016)\*\*
- 2.2 Amendment No. 1, dated as of December 8, 2016, to Agreement and Plan of Merger, dated as of July 26, 2016, by and among Citrix Systems, Inc., GetGo, Inc., LogMeIn, Inc. and Lithium Merger Sub, Inc. (incorporated herein by reference to Exhibit 2.4 to the Company's Annual Report on Form 10-K filed on February 16, 2017)\*\*
- 2.3 Amendment No. 2, dated as of May 4, 2017 and effective as of May 1, 2017, to Agreement and Plan of Merger, dated as of July 26, 2016, by and among Citrix Systems, Inc., GetGo, Inc. and LogMeIn, Inc. (incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q filed on August 4, 2017)
- 2.4 Amendment No. 3, dated as of September 29, 2017, to Agreement and Plan of Merger, dated as of July 26, 2016, by and among Citrix Systems, Inc., GetGo, Inc. and LogMeIn, Inc. (incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q filed on November 2, 2017)
- 2.5 Separation and Distribution Agreement, dated as of July 26, 2016, by and among Citrix Systems, Inc., GetGo, Inc. and LogMeIn, Inc. (incorporated herein by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed on July 28, 2016)\*\*
- 2.6 Amended and Restated Tax Matters Agreement, dated as of September 13, 2016, by and among LogMeIn, Inc., Citrix Systems, Inc. and GetGo, Inc. (incorporated herein by reference to Exhibit 2.3 to the Company's Annual Report on Form 10-K filed on February 16, 2017)\*\*
- 3.1 Amended and Restated Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 29, 2013)
- 3.2 Amended and Restated By-laws of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 12, 2018)
- 4.1 Specimen certificate representing Common Stock (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 33-98542), as amended) (P)
- 4.2 Indenture, dated as of April 30, 2014, between Citrix Systems, Inc. and Wilmington Trust, National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 30, 2014)
- 4.3 Form of 0.500% Convertible Senior Notes due 2019 (included in Exhibit 4.2)
- 4.4 Indenture, dated as of November 15, 2017, between Citrix Systems, Inc. and Wilmington Trust, National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 15, 2017)
- 4.5 Supplemental Indenture, dated as of November 15, 2017, between the Company and Wilmington Trust, National Association, as Trustee (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on November 15, 2017)
- 4.6 Form of 4.500% Senior Notes due 2027 (included in Exhibit 4.5)
- 10.1\*

Amended and Restated 2005 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 5, 2010)

10.2\* First Amendment to Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 28, 2010)

52

---

- 10.3\* Second Amendment to the Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 2, 2011)
- 10.4\* Third Amendment to the Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 2, 2011)
- 10.5\* Fourth Amendment to the Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 31, 2012)
- 10.6\* Fifth Amendment to the Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2013)
- 10.7\* Sixth Amendment to the Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 29, 2013)
- 10.8\* Form of Global Stock Option Agreement under the Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 9, 2011)
- 10.9\* Form of Restricted Stock Unit Agreement For Non-Employee Directors under the Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 9, 2011)
- 10.10\* Form of Global Restricted Stock Unit Agreement under the Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan (Performance Based Awards) (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 9, 2011)
- 10.11\* Form of Global Restricted Stock Unit Agreement under the Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan (Time Based Awards) (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on May 9, 2011)
- 10.12\* Form of Global Restricted Stock Unit Agreement under the Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan (Long Term Incentive) (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 7, 2012)
- 10.13\* Form of Long Term Incentive Agreement under the Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K filed on February 19, 2015)
- 10.14\* Amended and Restated 2005 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed on February 23, 2012)
- 10.15\* Amendment to Amended and Restated 2005 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed on February 21, 2013)
- 10.16\* Citrix Systems, Inc. Executive Bonus Plan (incorporated herein by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K filed on February 20, 2014)
- 10.17\* Citrix Systems, Inc. 2014 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 28, 2014)
- 10.18\* Form of Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan (2016 Performance-Based Awards) (incorporated herein by reference to Exhibit 10.7 of the Company's Quarterly Report on Form 10-Q filed on May 6, 2016)
- 10.19\* Form of Global Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan (Time Based Awards) (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2017)
- 10.20\* Form of Global Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan (Performance Based Awards) (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2017)
- 10.21\* 2015 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 10-Q filed on August 7, 2015)

- 10.22\* Amendment to 2015 Employee Stock Purchase Plan, dated October 27, 2016 (incorporated herein by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K filed on February 16, 2017)
- 10.23\* Citrix Systems, Inc. Amended and Restated 2014 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 27, 2017)

- 10.24\* Form of Global Restricted Stock Unit Agreement under the Citrix Systems, Inc. Amended and Restated 2014 Equity Incentive Plan (Performance Based Awards - August 2017) (incorporated herein by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q filed on November 2, 2017)
- 10.25\* Form of Global Restricted Stock Unit Agreement under the Citrix Systems, Inc. Amended and Restated 2014 Equity Incentive Plan (Performance Based Awards - August 2017) (incorporated herein by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q filed on November 2, 2017)
- 10.26\* Form of Global Restricted Stock Unit Agreement under the Citrix Systems, Inc. Amended and Restated 2014 Equity Incentive Plan (Time Based Awards - August 2017) (incorporated herein by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q filed on November 2, 2017)
- 10.27\* Form of Indemnification Agreement by and between the Company and each of its Directors and executive officers (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on August 8, 2011)
- 10.28\* Form of Executive Agreement of Citrix Systems, Inc. by and between the Company and each of its executive officers (other than the Executive Chairman and CEO) (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 20, 2017)
- 10.29\* Amended and Restated Employment Agreement, dated July 7, 2017, by and between Citrix Systems, Inc. and Robert M. Calderoni (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 10, 2017)
- 10.30\* Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan for Robert M. Calderoni granted February 1, 2017 (Time Based Awards) (incorporated herein by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K filed on February 16, 2018)
- 10.31\* Employment Agreement, dated January 19, 2016, by and between Citrix Systems, Inc. and Kirill Tatarinov (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 20, 2016)
- 10.32\* Restricted Stock Award Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan for Kirill Tatarinov (incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on May 6, 2016)
- 10.33\* Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan for Kirill Tatarinov (2016 Performance-Based Awards) (incorporated herein by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed on May 6, 2016)
- 10.34\* Separation Agreement and Release, dated July 7, 2017, by and between Citrix Systems, Inc. and Kirill Tatarinov (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on November 2, 2017)
- 10.35\* Form of Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan for executive officers (Performance Based Awards) (incorporated herein by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q filed on November 4, 2015)
- 10.36\* Letter Agreement, dated November 2, 2017, between Citrix Systems, Inc. and Carlos Sartorius (incorporated herein by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K filed on February 16, 2018)
- 10.37\* Employment Agreement, dated July 10, 2017, by and between Citrix Systems, Inc. and David J. Henshall (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 10, 2017)
- 10.38\* Restricted Stock Unit Agreement with David J. Henshall under the Citrix Systems, Inc. Amended and Restated 2014 Equity Incentive Plan (Performance Based Awards - August 2017) (incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on November 2, 2017)
- 10.39\* Restricted Stock Unit Agreement with David J. Henshall under the Citrix Systems, Inc. Amended and Restated 2014 Equity Incentive Plan (Performance Based Awards - August 2017) (incorporated herein by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed on November 2, 2017)
- 10.40\* Restricted Stock Unit Agreement with David J. Henshall under the Citrix Systems, Inc. 2014 Equity Incentive Plan (Time Based Awards - August 2017) (incorporated herein by reference to Exhibit 10.7 to the Company's

- Quarterly Report on Form 10-Q filed on November 2, 2017)
- 10.41\* Form of Global Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan (Time Based Awards - 2018 Annual Awards) (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2018)
- 10.42\* Form of Global Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan (Performance Based Awards - 2018 Annual Awards) (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2018)
- 10.43\* Form of Amendment to Restricted Stock Unit Agreement with David J. Henshall under the Citrix Systems, Inc. 2014 Equity Incentive Plan (Performance Based Awards - August 2017) (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2018)

- 10.44\* Form of Amendment to Restricted Stock Unit Agreement with David J. Henshall under the Citrix Systems, Inc. 2014 Equity Incentive Plan (Performance Based Awards - August 2017) (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2018)
- 10.45\* Form of Amendment to Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan (Performance Based Awards - August 2017) (incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2018)
- 10.46\* Form of Amendment to Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan (Performance Based Awards - August 2017) (incorporated herein by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2018)
- 10.47\* Restricted Stock Unit Agreement with Robert M. Calderoni under the Citrix Systems, Inc. 2014 Equity Incentive Plan (Time Based Award - January 2018) (incorporated herein by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2018)
- 10.48\* Amendment to Citrix Systems, Inc. 2014 Amended and Restated Equity Incentive Plan (incorporated herein by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2018)
- 10.49\* Executive Agreement, dated February 1, 2018 by and between the Company and Andrew Del Matto (incorporated herein by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2018)
- 10.50\*† Form of Amendment to Global Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan (Long Term Incentive)
- 10.51\*† Form of Restricted Stock Unit Agreement under the Citrix Systems, Inc. 2014 Equity Incentive Plan (Long Term Incentive)
- 10.52 Form of Call Option Transaction Confirmation between Citrix Systems, Inc. and each of JPMorgan Chase Bank, National Association, London Branch; Goldman, Sachs & Co.; Bank of America, N.A.; and Royal Bank of Canada (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 30, 2014)
- 10.53 Form of Warrants Confirmation between Citrix Systems, Inc. and each of JPMorgan Chase Bank, National Association, London Branch; Goldman, Sachs & Co.; Bank of America, N.A.; and Royal Bank of Canada (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 30, 2014)
- 10.54 Form of Additional Call Option Transaction Confirmation between Citrix Systems, Inc. and each of JPMorgan Chase Bank, National Association, London Branch; Goldman, Sachs & Co.; Bank of America, N.A.; and Royal Bank of Canada (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 6, 2014)
- 10.55 Form of Additional Warrants Confirmation between Citrix Systems, Inc. and each of JPMorgan Chase Bank, National Association, London Branch; Goldman, Sachs & Co.; Bank of America, N.A.; and Royal Bank of Canada (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 6, 2014)
- 10.56 Master Confirmation between Citibank, N.A. and Citrix Systems, Inc., dated April 25, 2014 (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 30, 2014)
- 10.57 Master Confirmation between Citibank, N.A. and Citrix Systems, Inc., dated November 13, 2017 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 14, 2017)
- 10.58 Master Confirmation between Goldman Sachs & Co. LLC and Citrix Systems, Inc., dated February 2, 2018 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 5, 2018)
- 10.59 Credit Agreement, dated as of January 7, 2015, by and among Citrix Systems, Inc., the initial lenders named therein and Bank of America, N.A., as Administrative Agent (incorporated herein by

- 10.60 reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 8, 2015)  
First Amendment to Credit Agreement, dated as of August 7, 2015, by and among Citrix Systems, Inc., the lenders named therein and Bank of America, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on November 4, 2015)
- 10.61 Cooperation Agreement, by and among Citrix Systems, Inc., Elliott Associates, L.P., Elliott International, L.P. and Elliott International Capital Advisors Inc., dated July 28, 2015 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 28, 2015)
- 10.62 Letter Agreement, dated as of July 26, 2016, among Citrix Systems, Inc., GetGo, Inc., LogMeIn, Inc., Elliott Associates, L.P. and Elliott International, L.P. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 28, 2016)
- 10.63\*† Amendment to Citrix Systems, Inc. 2015 Employee Stock Purchase Plan, dated December 10, 2018
- 21.1† List of Subsidiaries



- 23.1† [Consent of Independent Registered Certified Public Accounting Firm](#)
- 24.1 [Power of Attorney \(included in signature page\)](#)
- 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](#)
- 32.1†† [Section 1350 Certification of Principal Executive Officer and Principal Financial Officer](#)

101.INS† XBRL Instance Document

101.SCH†XBRL Taxonomy Extension Schema Document

101.CAL†XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF†XBRL Taxonomy Extension Definition Linkbase Document

101.LAB†XBRL Taxonomy Extension Label Linkbase Document

101.PRE†XBRL Taxonomy Extension Presentation Linkbase Document

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

Schedules (or similar attachments) have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant  
\*\* hereby undertakes to furnish supplemental copies of any of the omitted schedules (or similar attachments) upon  
request by the SEC.

† Filed herewith.

†† Furnished herewith.

(P) This exhibit has been paper filed and is not subject to the hyperlinking requirements of Item 601 of Regulation S-K.

(b) Exhibits.

The Company hereby files as part of this Annual Report on Form 10-K for the year ended December 31, 2018, the exhibits listed in Item 15(a)(3) above. Exhibits which are incorporated herein by reference can be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C., 20549 and at the Commission's regional offices at 175 W. Jackson Boulevard, Suite 900, Chicago, IL 60604 and 3 World Financial Center, Suite 400, New York, NY 10281-1022.

(c) Financial Statement Schedule.

The Company hereby files as part of this Annual Report on Form 10-K for the year ended December 31, 2018 the consolidated financial statement schedule listed in Item 15(a)(2) above, which is attached hereto.

ITEM 16. FORM 10-K SUMMARY

None.

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 15<sup>th</sup> day of February, 2019.

CITRIX SYSTEMS, INC.

By: /s/ DAVID J. HENSHALL  
David J. Henshall  
President and Chief Executive Officer

## POWER OF ATTORNEY AND SIGNATURES

We, the undersigned officers and directors of Citrix Systems, Inc., hereby severally constitute and appoint David J. Henshall and Andrew Del Matto, and each of them singly, our true and lawful attorneys, with full power to them and each of them singly, to sign for us in our names in the capacities indicated below, all amendments to this report, and generally to do all things in our names and on our behalf in such capacities to enable Citrix Systems, Inc. to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all requirements of the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated below on the 15<sup>th</sup> day of February, 2019.

Signature	Title(s)
/S/ DAVID J. HENSHALL David J. Henshall	President, Chief Executive Officer and Director (Principal Executive Officer)
/S/ ANDREW DEL MATTO Andrew Del Matto	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/S/ JESSICA SOISSON Jessica Soisson	Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)
/S/ ROBERT M. CALDERONI Robert M. Calderoni	Chairman of the Board of Directors
/S/ NANCIE E. CALDWELL Nanci E. Caldwell	Director
/S/ JESSE A. COHN Jesse A. Cohn	Director
/S/ ROBERT D. DALEO Robert D. Daleo	Director
/S/ MURRAY J. DEMO Murray J. Demo	Director
/S/ AJEI S. GOPAL Ajei S. Gopal	Director
/S/ THOMAS E. HOGAN Thomas E. Hogan	Director
/S/ MOIRA A. KILCOYNE	Director

Moira A. Kilcoyne

/S/ PETER J.  
SACRIPANTI

Peter J. Sacripanti

Director

CITRIX SYSTEMS, INC.

List of Financial Statements and Financial Statement Schedule

The following consolidated financial statements of Citrix Systems, Inc. are included in Item 8:

<u>Report of Independent Registered Certified Public Accounting Firm</u>	F- <u>2</u>
<u>Consolidated Balance Sheets — December 31, 2018 and 2017</u>	F- <u>3</u>
<u>Consolidated Statements of Income — Years ended December 31, 2018, 2017 and 2016</u>	F- <u>4</u>
<u>Consolidated Statements of Comprehensive Income — Years ended December 31, 2018, 2017 and 2016</u>	F- <u>5</u>
<u>Consolidated Statements of Equity — Years ended December 31, 2018, 2017 and 2016</u>	F- <u>6</u>
<u>Consolidated Statements of Cash Flows — Years ended December 31, 2018, 2017 and 2016</u>	F- <u>7</u>
<u>Notes to Consolidated Financial Statements</u>	F- <u>8</u>

The following consolidated financial statement schedule of Citrix Systems, Inc. is included in Item 15(a):

Schedule II Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

Report of Independent Registered Certified Public Accounting Firm

The Stockholders and Board of Directors of Citrix Systems, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Citrix Systems, Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 15, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 1989.

Boca Raton, Florida

February 15, 2019

CITRIX SYSTEMS, INC.  
CONSOLIDATED BALANCE SHEETS

	December 31, 2018	December 31, 2017
(In thousands, except par value)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 618,766	\$ 1,115,130
Short-term investments, available-for-sale	583,615	632,516
Accounts receivable, net of allowances of \$4,530 and \$4,645 at December 31, 2018 and 2017, respectively	688,420	712,535
Inventories, net	21,905	13,912
Prepaid expenses and other current assets	174,195	147,330
Total current assets	2,086,901	2,621,423
Long-term investments, available-for-sale	574,319	984,328
Property and equipment, net	243,396	252,932
Goodwill	1,802,670	1,614,494
Other intangible assets, net	167,187	141,952
Deferred tax assets, net	136,998	152,362
Other assets	124,578	52,685
Total assets	\$ 5,136,049	\$ 5,820,176
Liabilities, Temporary Equity and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 75,551	\$ 66,893
Accrued expenses and other current liabilities	290,492	277,679
Income taxes payable	44,409	34,033
Current portion of deferred revenues	1,345,243	1,308,474
Convertible notes, short-term	1,155,445	—
Total current liabilities	2,911,140	1,687,079
Long-term portion of deferred revenues	489,329	555,769
Long-term debt	741,825	2,127,474
Long-term income taxes payable	285,627	335,457
Other liabilities	148,499	121,936
Commitments and contingencies		
Temporary equity from Convertible notes	8,110	—
Stockholders' equity:		
Preferred stock at \$.01 par value: 5,000 shares authorized, none issued and outstanding—		—
Common stock at \$.001 par value: 1,000,000 shares authorized; 309,761 and 305,751 shares issued and outstanding at December 31, 2018 and 2017, respectively	310	306
Additional paid-in capital	5,404,500	4,883,670
Retained earnings	4,169,019	3,509,484
Accumulated other comprehensive loss	(8,154	) (10,806 )
	9,565,675	8,382,654
Less - common stock in treasury, at cost (178,327 and 162,044 shares at December 31, 2018 and 2017, respectively)	(9,014,156	) (7,390,193 )
Total stockholders' equity	551,519	992,461
Total liabilities, temporary equity and stockholders' equity	\$ 5,136,049	\$ 5,820,176
See accompanying notes.		



CITRIX SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2018	2017	2016
	(In thousands, except per share information)		
Revenues:			
Subscription	\$455,276	\$314,735	\$245,606
Product and license	734,495	766,777	810,975
Support and services	1,784,132	1,743,174	1,679,499
Total net revenues	2,973,903	2,824,686	2,736,080
Cost of net revenues:			
Cost of subscription, support and services	266,495	250,602	228,080
Cost of product and license revenues	120,249	123,356	121,391
Amortization and impairment of product related intangible assets	47,059	65,688	55,418
Total cost of net revenues	433,803	439,646	404,889
Gross margin	2,540,100	2,385,040	2,331,191
Operating expenses:			
Research and development	439,984	415,801	395,373
Sales, marketing and services	1,074,234	1,006,112	976,339
General and administrative	315,343	302,565	316,838
Amortization and impairment of other intangible assets	15,854	17,190	15,076
Restructuring	16,725	72,375	67,401
Total operating expenses	1,862,140	1,814,043	1,771,027
Income from continuing operations	677,960	570,997	560,164
Interest income	40,030	27,808	16,686
Interest expense	(80,162 )	(51,609 )	(44,949 )
Other (expense) income, net	(8,373 )	3,150	(4,131 )
Income from continuing operations before income taxes	629,455	550,346	527,770
Income tax expense	53,788	528,361	57,915
Income from continuing operations	575,667	21,985	469,855
(Loss) income from discontinued operations, net of income tax expense of \$2,900 and \$22,737 in 2017 and 2016, respectively	—	(42,704 )	66,257
Net income (loss)	\$575,667	\$(20,719 )	\$536,112
Basic earnings (loss) per share:			
Income from continuing operations	\$4.23	\$0.15	\$3.03
(Loss) income from discontinued operations	—	(0.28 )	0.43
Basic net earnings (loss) per share	\$4.23	\$(0.13 )	\$3.46
Diluted earnings (loss) per share:			
Income from continuing operations	\$3.94	\$0.14	\$2.99
(Loss) income from discontinued operations	—	(0.27 )	0.42
Diluted net earnings (loss) per share	\$3.94	\$(0.13 )	\$3.41
Weighted average shares outstanding:			
Basic	136,030	150,779	155,134
Diluted	145,934	155,503	157,084
See accompanying notes.			



CITRIX SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Net income (loss)	\$575,667	\$(20,719)	\$536,112
Other comprehensive income (loss):			
Available for sale securities:			
Change in net unrealized (losses) gains	(1,770 )	(3,285 )	996
Less: reclassification adjustment for net losses (gains) included in net income	5,996	(273 )	(1,204 )
Net change (net of tax effect)	4,226	(3,558 )	(208 )
Gain on pension liability	1,569	2,768	906
Cash flow hedges:			
Change in unrealized (losses) gains	(3,842 )	6,046	(2,638 )
Less: reclassification adjustment for net losses (gains) included in net income	699	(758 )	1,763
Net change (net of tax effect)	(3,143 )	5,288	(875 )
Other comprehensive income (loss)	2,652	4,498	(177 )
Comprehensive income (loss)	\$578,319	\$(16,221)	\$535,935
See accompanying notes.			

CITRIX SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF EQUITY

(In thousands)	Common Stock			Retained Earnings	Accumulated Other Comprehensive (loss) income	Common Stock in Treasury		Total Equity
	Shares	Amount	Additional Paid In Capital			Shares	Amount	
Balance at December 31, 2015	299,113	\$ 299	\$4,566,919	\$3,474,625	\$ (28,527 )	(145,296)	\$(6,039,870)	\$1,973,446
Shares issued under stock-based compensation plans	3,009	3	41,244	—	—	—	—	41,247
Stock-based compensation expense	—	—	175,980	—	—	—	—	175,980
Common stock issued under employee stock purchase plan	729	1	57,514	—	—	—	—	57,515
Tax deficiency from employer stock plans, net	—	—	(574 )	—	—	—	—	(574 )
Stock repurchases, net	—	—	—	—	—	(426 )	(28,689 )	(28,689 )
Restricted shares turned in for tax withholding	—	—	—	—	—	(830 )	(66,638 )	(66,638 )
Other comprehensive loss, net of tax	—	—	—	—	(177 )	—	—	(177 )
Temporary equity reclassification	—	—	(79,495 )	—	—	—	—	(79,495 )
Net Income	—	—	—	536,112	—	—	—	536,112
Balance at December 31, 2016	302,851	\$ 303	\$4,761,588	\$4,010,737	\$ (28,704 )	(146,552)	\$(6,135,197)	\$2,608,727
Shares issued under stock-based compensation plans	2,614	3	2,110	—	—	—	—	2,113
Stock-based compensation expense	—	—	166,308	—	—	—	—	166,308
Common stock issued under employee stock purchase plan	286	—	19,326	—	—	—	—	19,326
Stock repurchases, net	—	—	—	—	—	(7,384 )	(574,956 )	(574,956 )
Restricted shares turned in for tax withholding	—	—	—	—	—	(975 )	(80,040 )	(80,040 )
	—	—	—	—	4,498	—	—	4,498

Edgar Filing: CITRIX SYSTEMS INC - Form 10-K

Other comprehensive income, net of tax										
Other	—	—	(848	)	—	—	—	(848	)	
Accelerated stock repurchase program	—	—	(150,000	)	—	—	(7,133	)	(600,000	)
Cumulative-effect adjustment from adoption of accounting standard on stock-based compensation	—	—	5,691	(5,303	)	—	—	—	388	
Distribution of the net assets of the GoTo Business	—	—	—	(475,231	)	13,400	—	—	(461,831	)
Temporary equity reclassification	—	—	79,495	—	—	—	—	—	79,495	
Net loss	—	—	—	(20,719	)	—	—	—	(20,719	)
Balance at December 31, 2017	305,751	306	4,883,670	3,509,484	(10,806	)	(162,044)	(7,390,193	)	992,461
Shares issued under stock-based compensation plans	2,258	3	161	—	—	—	—	—	164	
Stock-based compensation expense	—	—	203,619	—	—	—	—	—	203,619	
Common stock issued under employee stock purchase plan	461	—	33,462	—	—	—	—	—	33,462	
Temporary equity reclassification	—	—	(8,110	)	—	—	—	—	(8,110	)
Stock repurchases, net	—	—	—	—	—	—	(4,731	)	(511,153	)
Accelerated stock repurchase program	—	—	150,000	—	—	—	(9,522	)	(900,000	)
Restricted shares turned in for tax withholding	—	—	—	—	—	—	(739	)	(71,593	)
Cash dividends declared	—	—	—	(46,799	)	—	—	—	(46,799	)
Settlement of convertible notes and hedges	1,291	1	138,231	—	—	—	(1,291	)	(141,217	)
Cumulative-effect adjustment from adoption of accounting standards	—	—	—	132,778	—	—	—	—	132,778	
Other	—	—	3,467	(2,111	)	—	—	—	1,356	
Other comprehensive income, net of tax	—	—	—	—	—	2,652	—	—	2,652	
Net income	—	—	—	575,667	—	—	—	—	575,667	

Edgar Filing: CITRIX SYSTEMS INC - Form 10-K

Balance at  
December 31, 2018 309,761 \$ 310 \$5,404,500 \$4,169,019 \$ (8,154 ) (178,327) \$(9,014,156) \$551,519  
See accompanying notes.

F- 6

---

CITRIX SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Operating Activities			
Net income (loss)	\$575,667	\$(20,719)	\$536,112
Loss (income) from discontinued operations	—	42,704	(66,257)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization and impairment of intangible assets	62,913	82,878	70,494
Depreciation and amortization of property and equipment	78,983	87,137	107,954
Amortization of debt discount and transaction costs	39,099	38,298	37,085
Amortization of deferred costs	38,144	—	—
Stock-based compensation expense	203,619	165,120	152,739
Deferred income tax (benefit) expense	(13,156)	94,158	(21,654)
Excess tax benefit from stock-based compensation	—	—	(16,049)
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	7,950	(7,645)	5,189
Other non-cash items	11,872	11,924	8,618
Total adjustments to reconcile net income (loss) to net cash provided by operating activities	429,424	471,870	344,376
Changes in operating assets and liabilities, net of the effects of acquisitions:			
Accounts receivable	18,703	(33,904)	(61,662)
Inventories	(8,239)	(2,545)	(4,133)
Prepaid expenses and other current assets	(7,855)	(18,327)	(12,077)
Other assets	(33,638)	2,116	(2,747)
Income taxes, net	(56,988)	318,795	42,431
Accounts payable	6,804	(7,238)	(16,365)
Accrued expenses and other current liabilities	36,967	34,886	22,650
Deferred revenues	69,499	174,426	142,381
Other liabilities	5,001	2,282	22,459
Total changes in operating assets and liabilities, net of the effects of acquisitions	30,254	470,491	132,937
Net cash provided by operating activities of continuing operations	1,035,345	964,346	947,168
Net cash (used in) provided by operating activities of discontinued operations	—	(56,070)	168,662
Net cash provided by operating activities	1,035,345	908,276	1,115,830
Investing Activities			
Purchases of available-for-sale investments	(466,687)	(1,155,659)	(2,238,784)
Proceeds from sales of available-for-sale investments	455,417	775,135	1,294,636
Proceeds from maturities of available-for-sale investments	468,145	466,900	632,517
Purchases of property and equipment	(69,354)	(80,901)	(85,035)
Cash paid for acquisitions, net of cash acquired	(248,929)	(60,449)	(13,242)
Cash paid for licensing agreements and product related intangible assets	(3,210)	(7,379)	(25,940)
Other	(3,202)	2,323	1,181
Net cash provided by (used in) investing activities of continuing operations	132,180	(60,030)	(434,667)
Net cash used in investing activities of discontinued operations	—	(3,891)	(49,537)
Net cash provided by (used in) investing activities	132,180	(63,921)	(484,204)
Financing Activities			
Proceeds from issuance of common stock under stock-based compensation plans	164	2,114	41,247
Proceeds from revolving credit facility	—	165,000	—
Repayments on credit facility	—	(165,000)	—

Edgar Filing: CITRIX SYSTEMS INC - Form 10-K

Proceeds from 2027 notes, net of issuance costs	—	741,039	—
Repayment of acquired debt	(5,674 )	(4,000 )	—
Excess tax benefit from stock-based compensation	—	—	16,049
Stock repurchases, net	(1,261,153 )	(1,174,957 )	(28,689 )
Accelerated stock repurchase program	—	(150,000 )	—
Cash paid for tax withholding on vested stock awards	(71,593 )	(80,040 )	(66,638 )
Common stock cash dividends paid	(46,799 )	—	—
Repayment on convertible debt	(272,986 )	—	—
Transfer of cash to GoTo Business resulting from the separation	—	(28,523 )	—
Net cash used in financing activities	(1,658,041 )	(694,367 )	(38,031 )
Effect of exchange rate changes on cash and cash equivalents	(5,848 )	8,186	(5,157 )
Change in cash and cash equivalents	(496,364 )	158,174	588,438
Cash and cash equivalents at beginning of period, including cash of discontinued operations of \$0, \$120,861 and \$57,762, respectively	1,115,130	956,956	368,518
Cash and cash equivalents at end of period	618,766	1,115,130	956,956
Less cash of discontinued operations	—	—	(120,861 )
Cash and cash equivalents at end of period	618,766	\$ 1,115,130	\$ 836,095
Supplemental Cash Flow Information			
Cash paid for income taxes	\$ 110,808	\$ 61,126	\$ 64,361
Cash paid for interest	\$ 41,834	\$ 8,764	\$ 7,847
See accompanying notes.			

F- 7

---



CITRIX SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. BACKGROUND AND ORGANIZATION

Citrix Systems, Inc. ("Citrix" or the "Company"), is a Delaware corporation incorporated on April 17, 1989. Citrix aims to power a better way to work by delivering the experience, security, and choice people and organizations need to unlock innovation, engage customers, and be productive - anytime, anywhere.

Citrix markets and licenses its solutions through multiple channels worldwide, including selling through resellers, direct and over the Web. Citrix's partner community comprises thousands of value-added resellers, or VARs known as Citrix Solution Advisors, value-added distributors, or VADs, systems integrators, or SIs, independent software vendors, or ISVs, original equipment manufacturers, or OEMs and Citrix Service Providers, or CSPs.

The Company's revenues are derived from sales of its Digital Workspace solutions (formerly Workspace Services and Content Collaboration), Networking products and related Support and services. The Company operates under one reportable segment. The Company's chief operating decision maker ("CODM") reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. See Note 12 for more information on the Company's segment.

On January 31, 2017, the Company completed the spin-off of its GoTo family of service offerings (the "Spin-off") and subsequent merger of that business with LogMeIn, Inc. pursuant to a pro rata distribution to its stockholders of 100% of the shares of common stock of GetGo, Inc., or GetGo, its wholly-owned subsidiary. In these consolidated financial statements, unless otherwise indicated, references to Citrix and the Company, refer to Citrix Systems, Inc. and its consolidated subsidiaries after giving effect to the Spin-off. As a result of the Spin-off, the consolidated financial statements reflect the GoTo Business operations, assets and liabilities, and cash flows as discontinued operations for all periods presented. Refer to Note 3 for additional information regarding discontinued operations.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Consolidation Policy

The consolidated financial statements of the Company include the accounts of its wholly-owned subsidiaries in the Americas; Europe, the Middle East and Africa ("EMEA"); and Asia-Pacific and Japan ("APJ"). All significant transactions and balances between the Company and its subsidiaries have been eliminated in consolidation.

### Recent Accounting Pronouncements

#### Revenue Recognition

In May 2014, the Financial Accounting Standards Board issued an accounting standard update ("ASC 606") on revenue recognition. The new guidance creates a single, principle-based model for revenue recognition that expands and improves disclosures about revenue. On January 1, 2018, the Company adopted the accounting standard update for revenue from contracts with customers on a modified retrospective basis, applying the practical expedient to all contracts that the Company had not completed as of January 1, 2018. The Company elected the modified retrospective method of adoption; and consequently, results for reporting periods beginning after January 1, 2018 are presented under the new revenue standard, while prior period amounts are not adjusted and continue to be reported under the revenue accounting literature in effect during those periods. The Company recorded a net increase to retained earnings of \$130.7 million as of January 1, 2018 as a result of the transition, with the impact primarily related to the cumulative effect of a decrease in deferred revenue from the upfront recognition of term licenses and the general requirement to allocate the transaction price on a relative stand-alone selling price of \$99.9 million, and an increase in contract assets of \$7.3 million, the cumulative effect of a decrease in commission expense of \$66.4 million, partially offset by an increase from the cumulative effect of the impact on deferred income taxes of \$42.9 million.

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The impact of adoption of ASC 606 to the Company's consolidated statements of income and balance sheets are as follows:

	Year Ended December 31, 2018		
	As Reported	Balances without adoption of ASC 606	Effect of Change Higher/(Lower)
	(in thousands, except per share amounts)		
Total net revenues	\$2,973,903	\$2,966,848	\$ 7,055
Total cost of net revenues	433,803	431,974	1,829
Gross profit	2,540,100	2,534,874	5,226
Total operating expenses	1,862,140	1,890,692	(28,552 )
Income from operations	677,960	644,182	33,778
Net income	\$575,667	\$548,430	\$ 27,237
Basic earnings per share	\$4.23	\$4.03	\$ 0.20
Diluted earnings per share	\$3.94	\$3.76	\$ 0.18
	As of December 31, 2018		
	As Reported	Balances without adoption of ASC 606	Effect of Change Higher/(Lower)
	(in thousands)		
Prepaid expenses and other current assets <sup>(1)</sup>	\$174,195	\$147,554	\$ 26,641
Other assets <sup>(2)</sup>	124,578	52,732	71,846
Deferred tax assets, net	136,998	169,064	(32,066 )
Total assets	\$5,136,049	\$5,069,628	\$ 66,421
Other liabilities <sup>(3)</sup>	148,499	135,430	13,069
Current portion of deferred revenues	1,345,243	1,413,839	(68,596 )
Long-term portion of deferred revenues	489,329	526,763	(37,434 )
Total liabilities	\$4,576,420	\$4,669,381	\$ (92,961 )

Stockholders' Equity:

Retained earnings \$4,169,019 \$4,009,637 \$ 159,382

(1) As reported primarily includes contract acquisition costs of \$41.0 million. The balance without adoption of ASC 606 includes contract acquisition costs of \$14.2 million.

(2) As reported primarily includes contract acquisition costs of \$68.2 million.

(3) As reported includes deferred tax liabilities of \$54.7 million. The balance without adoption of ASC 606 includes deferred tax liabilities of \$56.6 million.

Adoption of the standard had no impact to cash from or used in operating, financing, or investing activities on the Company's consolidated cash flows statements.

Accounting for Business Combinations

In January 2017, the Financial Accounting Standards Board issued an accounting standard update on the accounting for business combinations by clarifying the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The Company adopted the standard effective January 1, 2018. The adoption of this standard had no impact

on the Company's consolidated financial position, results of operations and cash flows.

Accounting for Income Taxes

In October 2016, the Financial Accounting Standards Board issued an accounting standard update on the accounting for income taxes, which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than

F- 9

---

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

inventory when the transaction occurs as opposed to deferring tax consequences and amortizing them into future periods. A modified retrospective approach with a cumulative-effect adjustment directly to retained earnings at the beginning of the period of adoption is required. The Company adopted the standard effective January 1, 2018. The adoption of this standard did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

#### Accounting for Investments

In January 2016, the Financial Accounting Standards Board issued an accounting standard update for the recognition and measurement of financial assets and liabilities. Under the standard, equity investments that do not have readily determinable fair values and do not qualify for the net asset value practical expedient are eligible for the measurement alternative. For the Company's equity investments in private equity securities, which do not have readily determinable fair values, the Company has elected the measurement alternative defined as cost, less impairment, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. For certain of the Company's equity investments in private equity funds, the Company has elected to use the net asset value practical expedient. The guidance of this accounting standard update was adopted effective January 1, 2018. The impact of adopting the accounting standard update was not material to the consolidated financial statements.

In February 2018, the Financial Accounting Standards Board issued an accounting standard update that clarified and amended some of the updates made in the January 2016 update to the recognition and measurement of financial assets and liabilities. The Company has elected to early adopt this accounting standard update effective January 1, 2018. The impact of adopting the accounting standard update was not material to the consolidated financial statements.

#### Leases

In February 2016, the Financial Accounting Standards Board issued an accounting standard update on the accounting for leases. The new guidance requires that lessees in a leasing arrangement recognize a right-of-use asset and a lease liability for most leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. The new guidance is effective for annual reporting periods beginning after December 15, 2018. Under the original guidance, the modified retrospective method of adoption was mandatory, and would have required application of the standard at the beginning of the earliest comparative period presented. However, in July 2018, the Financial Accounting Standards Board issued an update which permits entities to adopt the standard using another transition method. Under this optional transition method, the Company would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company adopted this standard effective January 1, 2019, using the optional transition method. The Company has concluded an assessment of its systems, data and processes related to the implementation of this accounting standard and has substantially completed its information technology system design and solution development. Adoption of the standard is expected to result in the recognition of additional right-of-use assets and lease liabilities for operating leases (net of previously recorded lease losses related to the consolidated leased facilities) in the range of \$200.0 million to \$250.0 million. The Company does not expect a material impact to its results of operations.

#### Accounting for Cloud Computing Costs

In August 2018, the Financial Accounting Standards Board issued an accounting standard update on the accounting for implementation costs incurred by customers in cloud computing arrangements that are service contracts. The new guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within those fiscal years, and early adoption is permitted. The standard can be adopted either using the prospective or retrospective transition approach. The Company will early adopt this standard on January 1, 2019 and does not expect a material impact from adoption on its consolidated financial position and results of operations.

Fair Value Measurements

In August 2018, the Financial Accounting Standards Board issued an accounting standard update on fair value measurements. The new guidance modifies the disclosure requirements on fair value measurements by removing certain disclosure requirements related to the fair value hierarchy, modifying existing disclosure requirements related to measurement uncertainty, and adding new disclosure requirements. The new guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within those fiscal years, and early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position, results of operations and cash flows.

F- 10

---

## CITRIX SYSTEMS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Reclassifications

Certain reclassifications of the prior years' amounts have been made to conform to the current year's presentation. Beginning in the first quarter of fiscal year 2018, the Company revised its presentation of revenue to align with its transition to a subscription business model as follows: (1) subscription revenue, which includes revenue from the Company's cloud services offerings and on-premise subscriptions as well as revenue from its Citrix Service Provider ("CSP") offerings; (2) product and license revenue from perpetual product and license offerings; and (3) support and services revenue for perpetual product and license offerings.

This change in manner of presentation did not affect the Company's total net revenues, total cost of net revenues or gross margin. Conforming changes have been made for all periods presented, as follows (in thousands):

## Year Ended December 31, 2017

As Previously Reported		Amount Reclassified		As Reported	
Revenues:				Revenues:	
Software as a service	\$175,762	\$138,973		Subscription	\$314,735
Product and licenses <sup>(1)</sup>	857,253	(90,476)	)	Product and license	766,777
License updates and maintenance <sup>(2)</sup>	1,659,936	83,238		Support and services <sup>(3)</sup>	1,743,174
Professional services	131,735	(131,735)	)		
Total net revenues	\$2,824,686	\$—		Total net revenues	\$2,824,686

## Year Ended December 31, 2016

As Previously Reported		Amount Reclassified		As Reported	
Revenues:				Revenues:	
Software as a service	\$134,682	\$110,924		Subscription	\$245,606
Product and licenses <sup>(1)</sup>	882,898	(71,923)	)	Product and license	810,975
License updates and maintenance <sup>(2)</sup>	1,587,271	92,228		Support and services <sup>(3)</sup>	1,679,499
Professional services	131,229	(131,229)	)		
Total net revenues	\$2,736,080	\$—		Total net revenues	\$2,736,080

Product and licenses as previously reported included revenue from CSPs and on-premise subscriptions that are now (1) included in Subscription. Current period presentation only includes revenues from perpetual offerings and hardware.

(2) License updates and maintenance as previously reported included revenue from CSPs and on-premise license updates and maintenance that are now included in Subscription.

(3) Support and services includes revenues from license updates and maintenance from perpetual offerings as well as professional services.

## Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates made by management include the standalone selling price related to revenue recognition, the provision for doubtful accounts receivable, the provision to reduce obsolete or excess inventory to market, the provision for estimated returns, as well as sales allowances, the assumptions used in the valuation of stock-based awards, the assumptions used in the discounted cash flows to mark certain of its investments to market, the valuation of the Company's goodwill, net realizable value of product related and other intangible assets, the provision for lease losses, the provision for income taxes, valuation allowance for deferred tax assets, uncertain tax positions, and the amortization and depreciation periods for contract acquisition costs, intangible and long-lived assets. While the Company believes that such estimates are fair when considered in conjunction with the consolidated financial position and results of operations taken as a whole, the actual amounts of

such items, when known, will vary from these estimates.

F- 11

---

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2018 and 2017 include marketable securities, which are primarily money market funds, commercial paper, agency, and government securities, municipal securities and corporate securities with initial or remaining contractual maturities when purchased of three months or less.

Available-for-sale Investments

Short-term and long-term available for sale investments at December 31, 2018 and 2017 primarily consist of agency securities, corporate securities, municipal securities and government securities. Investments classified as available-for-sale are stated at fair value with unrealized gains and losses, net of taxes, reported in Accumulated other comprehensive loss. The Company classifies its available-for-sale investments as current and non-current based on their actual remaining time to maturity. The Company does not recognize changes in the fair value of its available-for-sale investments in income unless a decline in value is considered other-than-temporary in accordance with the authoritative guidance.

The Company's investment policy is designed to limit exposure to any one issuer depending on credit quality. The Company uses information provided by third parties to adjust the carrying value of certain of its investments to fair value at the end of each period. Fair values are based on a variety of inputs and may include interest rates, known historical trades, yield curve information, benchmark data, prepayment speeds, credit quality and broker/dealer quotes. See Note 5 for investment information.

Accounts Receivable

The Company's accounts receivable are attributable primarily to direct sales to end customers via the Web and through value-added resellers, or VARs known as Citrix Solution Advisors, value-added distributors, or VADs, systems integrators, or SIs, independent software vendors, or ISVs, original equipment manufacturers, or OEMs and Citrix Service Providers, or CSPs. Collateral is generally not required. The Company also maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make payments which includes both general and specific reserves. The Company periodically reviews these estimated allowances by conducting an analysis of the customer's payment history and credit worthiness, the age of the trade receivable balances and current economic conditions that may affect a customer's ability to make payments. Based on this review, the Company specifically reserves for those accounts deemed uncollectible. When receivables are determined to be uncollectible, principal amounts of such receivables outstanding are deducted from the allowance. The allowance for doubtful accounts was \$3.6 million and \$3.4 million as of December 31, 2018 and 2017, respectively. If the financial condition of a significant customer were to deteriorate, the Company's operating results could be adversely affected. As of December 31, 2018, one distributor, the Arrow Group, accounted for 17% of gross accounts receivable. At December 31, 2017, one distributor, the Arrow Group, accounted for 14% of gross accounts receivable.

Inventory

Inventories are stated at the lower of cost or net realizable value on a standard cost basis, which approximates actual cost. The Company's inventories primarily consist of finished goods as of December 31, 2018 and 2017.

Contract acquisition costs

In conjunction with the adoption of the new revenue recognition standard, the Company is required to capitalize certain contract acquisition costs consisting primarily of commissions paid and related payroll taxes when contracts are signed. The asset recognized from capitalized incremental and recoverable acquisition costs is amortized on a basis consistent with the pattern of transfer of the products or services to which the asset relates and is recognized in Prepaid expenses and other current assets and Other assets in the accompanying consolidated balance sheets.

The Company's typical contracts include performance obligations related to product and licenses and support. In these contracts, incremental costs of obtaining a contract are allocated to the performance obligations based on the relative estimated standalone selling prices and then recognized on a basis that is consistent with the transfer of the goods or services to which the asset relates. The commissions paid on annual renewals of support for product and licenses are



not commensurate with the initial commission. The costs allocated to product and licenses are expensed at the time of sale, when revenue for the product and functional software licenses is recognized. The costs allocated to customer support for product and licenses are amortized ratably over a period of the greater of the contract term or the average customer life, the expected period of benefit of the asset capitalized. The Company currently estimates an average customer life of two to five years, which it believes is appropriate based on consideration of the historical average customer life and the estimated useful life of the underlying product and

F- 12

---

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

license sold as part of the transaction. Amortization of contract acquisition costs related to support are limited to the contractual period of the arrangement as the Company intends to pay a commensurate commission upon renewal of the related support. For contracts that contain multi-year services or subscriptions, the amortization period of the capitalized costs is the expected period of benefit, which is the greater of the contractual term or the expected customer life.

The Company elects to apply a practical expedient to expense contract acquisition costs as incurred where the expected period of benefit is one year or less.

For the year ended on December 31, 2018, the Company recorded amortization costs of \$38.1 million in relation to costs capitalized during the year, which are recorded in Sales, Marketing and Services expense in the accompanying consolidated statements of income. There was no impairment loss in relation to costs capitalized during the year ended on December 31, 2018.

#### Derivatives and Hedging Activities

In accordance with the authoritative guidance, the Company records derivatives at fair value as either assets or liabilities on the balance sheet. For derivatives that are designated as and qualify as effective cash flow hedges, the portion of gain or loss on the derivative instrument effective at offsetting changes in the hedged item is reported as a component of Accumulated other comprehensive loss and reclassified into earnings as operating expense, net, when the hedged transaction affects earnings. Derivatives not designated as hedging instruments are adjusted to fair value through earnings as Other (expense) income, net, in the period during which changes in fair value occur. The application of the authoritative guidance could impact the volatility of earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes attributing all derivatives that are designated as cash flow hedges to floating rate assets or liabilities or forecasted transactions. The Company also formally assesses, both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in cash flows of the hedged item. Fluctuations in the value of the derivative instruments are generally offset by changes in the hedged item; however, if it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, the Company will discontinue hedge accounting prospectively for the affected derivative.

The Company is exposed to risk of default by its hedging counterparties. Although this risk is concentrated among a limited number of counterparties, the Company's foreign exchange hedging policy attempts to minimize this risk by placing limits on the amount of exposure that may exist with any single financial institution at a time.

#### Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is generally three years for computer equipment and software; the lesser of the lease term or ten years for leasehold improvements, which is the estimated useful life; seven years for office equipment and furniture and the Company's enterprise resource planning systems; and 40 years for buildings.

During 2018 and 2017, the Company retired \$13.4 million and \$16.9 million, respectively, in property and equipment that were no longer in use. At the time of retirement, the remaining net book value of the assets retired was not material and no material asset retirement obligations were associated with them.

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property and equipment consist of the following:

	December 31,	
	2018	2017
	(In thousands)	
Buildings	\$76,152	\$76,152
Computer equipment	189,333	176,140
Software	433,033	388,583
Equipment and furniture	78,401	73,700
Leasehold improvements	182,848	168,656
	959,767	883,231
Less: accumulated depreciation and amortization	(741,587 )	(675,892 )
Assets under construction	8,447	28,824
Land	16,769	16,769
Total	\$243,396	\$252,932

#### Long-Lived Assets

The Company reviews for impairment of long-lived assets and certain identifiable intangible assets to be held and used whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss is based on the fair value of the asset compared to its carrying value. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

#### Goodwill

The Company accounts for goodwill in accordance with the authoritative guidance, which requires that goodwill and certain intangible assets are not amortized, but are subject to an annual impairment test. During 2018, the Company initiated an effort to streamline and simplify its product branding and packaging, which included naming updates to the portfolio to provide clarity on the Company's offerings and unify its sales motions. The change resulted in the Company consolidating its Content Collaboration product group with Workspace Services and renaming the new product group Digital Workspace. As a result, the Company's two reporting units (Enterprise and Service Provider and Content Collaboration) were combined into one, consistent with how management reviews the operating results of the business. In connection with this change, the Company performed a qualitative goodwill assessment of the reporting units and determined there were no indicators of impairment during the third quarter of 2018. The change in reporting units did not result in a reallocation of goodwill or a change in reportable segments.

In addition, there was no impairment of goodwill or indefinite lived intangible assets as a result of the annual impairment analysis completed during the fourth quarters of 2018 and 2017. See Note 4 for more information regarding the Company's acquisitions and Note 12 for more information regarding the Company's segments.

The following table presents the change in goodwill during 2018 and 2017 (in thousands):

	Balance at January 1, 2018	Additions	Other	Balance at December 31, 2018	Balance at January 1, 2017	Additions	Other	Balance at December 31, 2017
Goodwill	\$1,614,494	\$ 188,176 (1)\$	—\$1,802,670	\$1,585,893	\$ 28,601 (2)\$	—\$1,614,494		

(1) Amount relates to preliminary purchase price allocation of goodwill associated with the 2018 business combinations. See Note 4 for more information regarding the Company's acquisitions.

(2) Amount relates to the purchase price allocation of goodwill associated with the 2017 business combination. See Note 4 for more information regarding the Company's acquisitions.

#### Intangible Assets

The Company has intangible assets which were primarily acquired in conjunction with business combinations and technology purchases. Intangible assets with finite lives are recorded at cost, less accumulated amortization.

Amortization is computed over the estimated useful lives of the respective assets, generally three to seven years, except for patents, which are amortized over the lesser of their remaining life or ten years. In-process R&D is initially capitalized at fair value as an

F- 14

---

## CITRIX SYSTEMS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

intangible asset with an indefinite life and assessed for impairment thereafter. When in-process R&D projects are completed, the corresponding amount is reclassified as an amortizable intangible asset and is amortized over the asset's estimated useful life.

Intangible assets consist of the following (in thousands):

	December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Weighted-Average Life (Years)
Product related intangible assets	\$746,152	\$ 601,993	6.06
Other	227,922	204,894	6.40
Total	\$974,074	\$ 806,887	6.14
	December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Weighted-Average Life (Years)
Product related intangible assets	\$663,004	\$ 554,934	6.10
Other	222,923	189,041	6.49
Total	\$885,927	\$ 743,975	6.20

Amortization and impairment of product related intangible assets, which consists primarily of product-related technologies and patents, was \$47.1 million and \$65.7 million for the year ended December 31, 2018 and 2017, respectively, and is classified as a component of Cost of net revenues in the accompanying consolidated statements of income. Amortization and impairment of other intangible assets, which consist primarily of customer relationships, trade names and covenants not to compete was \$15.9 million and \$17.2 million for the year ended December 31, 2018 and 2017, respectively, and is classified as a component of Operating expenses in the accompanying consolidated statements of income.

The Company monitors its intangible assets for indicators of impairment. If the Company determines that impairment has occurred, it writes-down the intangible asset to its fair value. For certain intangible assets where the unamortized balances exceed the undiscounted future net cash flow, the Company measures the amount of the impairment by calculating the amount by which the carrying values exceed the estimated fair values, which are based on projected discounted future net cash flows. During the year ended December 31, 2017, the Company tested certain intangible assets for recoverability and, as a result, identified certain definite-lived intangible assets, primarily developed technology, that were impaired and recorded non-cash impairment charges of \$18.0 million to write down the intangible assets to their estimated fair value of \$1.6 million. Of the impairment charge, \$15.5 million is included in Amortization and impairment of product related intangible assets and \$2.5 million is included in Amortization and impairment of other intangible assets in the accompanying consolidated statements of income. These non-recurring fair value measurements were categorized as Level 3, as significant unobservable inputs were used in the valuation analysis. Key assumptions used in the valuation include forecasts of revenue and expenses over an extended period of time, customer retention rates, tax rates, and estimated costs of debt and equity capital to discount the projected cash flows. Certain of these assumptions involve significant judgment, are based on management's estimate of current and forecasted market conditions and are sensitive and susceptible to change; therefore, further disruptions in the business could potentially result in additional amounts becoming impaired.

Estimated future amortization expense of intangible assets with finite lives as of December 31, 2018 is as follows (in thousands):

Year ending December 31,	
2019	\$50,981
2020	38,482
2021	24,494
2022	22,644
2023	19,292
Thereafter	11,294

Total \$167,187

F- 15

---

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Software Development Costs

The authoritative guidance requires certain internal software development costs related to software to be sold to be capitalized upon the establishment of technological feasibility. The Company's software development costs incurred subsequent to achieving technological feasibility have not been significant and substantially all software development costs have been expensed as incurred.

#### Internal Use Software

In accordance with the authoritative guidance, the Company capitalizes external direct costs of materials and services and internal costs such as payroll and benefits of those employees directly associated with the development of new functionality in internal use software. The amount of costs capitalized during the years ended 2018 and 2017 relating to internal use software was \$14.8 million and \$41.5 million, respectively. These costs are being amortized over the estimated useful life of the software, which is generally three to seven years, and are included in property and equipment in the accompanying consolidated balance sheets. The total amounts charged to expense relating to internal use software was approximately \$25.9 million, \$27.3 million and \$37.8 million, during the years ended December 31, 2018, 2017 and 2016, respectively.

The Company capitalized costs related to internally developed computer software to be sold as a service related to its Digital Workspace offerings, incurred during the application development stage, of \$7.3 million and \$15.2 million, during the years ended December 31, 2018 and 2017, respectively, and is amortizing these costs over the expected lives of the related services, which is generally two years, and are included in property and equipment in the accompanying consolidated balance sheets. The total amounts charged to expense relating to internally developed computer software to be sold as a service was approximately \$14.4 million, \$18.5 million and \$16.8 million, during the years ended December 31, 2018, 2017 and 2016, respectively, which are included in Cost of subscription, support and services.

#### Pension Liability

The Company provides retirement benefits to certain employees who are not U.S. based. Generally, benefits under these programs are based on an employee's length of service and level of compensation. The majority of these programs are commonly referred to as termination indemnities, which provide retirement benefits in accordance with programs mandated by the governments of the countries in which such employees work.

The Company had accrued \$11.2 million and \$13.2 million for these pension liabilities at December 31, 2018 and 2017, respectively. Expenses for the programs for 2018, 2017 and 2016 amounted to \$1.8 million, \$2.6 million and \$2.5 million, respectively.

#### Revenue

The following is a description of the principal activities from which the Company generates revenue.

##### Subscription

Subscription revenues primarily consist of cloud-hosted offerings which provide customers a right to use, or a right to access, one or more of the Company's cloud-hosted subscription offerings, with routine customer support, as well as revenues from the CSP program and on-premise subscription software licenses. For the Company's cloud-hosted performance obligations, revenue is generally recognized on a ratable basis over the contract term beginning on the date that the Company's service is made available to the customer, as the Company continuously provides online access to the web-based software that the customer can use at any time. The CSP program provides subscription-based services in which the CSP partners host software services to their end users.

##### Product and license

Product and license revenues are primarily derived from perpetual offerings related to the Company's Digital Workspace solutions and Networking products. For performance obligations related to perpetual software license agreements, the Company determined that its licenses are functional intellectual property that are distinct as the user can benefit from the software on its own as defined under the new revenue standard.

##### Support and services

Support and services includes license updates, maintenance and professional services revenues. License updates and





## CITRIX SYSTEMS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

maintenance revenues are primarily comprised of software and hardware maintenance, when and if-available updates and technical support. For performance obligations related to license updates and maintenance, revenue is generally recognized on a straight-line basis over the period of service because the Company transfers control evenly by providing a stand-ready service. That is, the Company is continuously working on improving its products and pushing those updates through to the customer, and stands ready to provide software updates on a when and if-available basis. Services revenues are comprised of fees from consulting services primarily related to the implementation of the Company's products and fees from product training and certification.

The Company's typical performance obligations include the following:

Performance Obligation	When Performance Obligation is Typically Satisfied
Subscription	
Cloud hosted offerings	Over the contract term, beginning on the date that service is made available to the customer (over time)
CSP	As the usage occurs (over time)
On-premise subscription software licenses	When software activation keys have been made available for download (point in time)
Product and license	
Software Licenses	When software activation keys have been made available for download (point in time)
Hardware	When control of the product passes to the customer; typically upon shipment (point in time)
Support and services	
License updates and maintenance	Ratably over the course of the service term (over time)
Professional services	As the services are provided (over time)

## Significant Judgments

At contract inception, the Company assesses the solutions or services, or bundles of solutions and services, obligated in the contract with a customer to identify each performance obligation within the contract, and then evaluates whether the performance obligations are capable of being distinct and distinct within the context of the contract. Solutions and services that are not both capable of being distinct and distinct within the context of the contract are combined and treated as a single performance obligation in determining the allocation and recognition of revenue. The standalone selling price is the price at which the Company would sell a promised product or service separately to the customer. For the majority of the Company's software licenses and hardware, CSP and on-premise subscription software licenses, the Company uses the observable price in transactions with multiple performance obligations. For the majority of the Company's support and services, and cloud-hosted subscription offerings, the Company uses the observable price when the Company sells that support and service and cloud-hosted subscription separately to similar customers. If the standalone selling price for a performance obligation is not directly observable, the Company estimates it. The Company estimates standalone selling price by taking into consideration market conditions, economics of the offering and customers' behavior. The Company maximizes the use of observable inputs and applies estimation methods consistently in similar circumstances. The Company allocates the transaction price to each distinct performance obligation on a relative standalone selling price basis.

Revenues are recognized when control of the promised products or services are transferred to customers, in an amount that reflects the consideration that the Company expects to receive in exchange for those products or services. The Company generates all of its revenues from contracts with customers.

## Sales tax

The Company records revenue net of sales tax.

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Timing of revenue recognition

	For the Year Ended December 31, 2018 (In Thousands)
Products and services transferred at a point in time	\$ 821,111
Products and services transferred over time	2,152,792
Total net revenues	\$ 2,973,903

## Contract balances

The Company's short-term and long-term contract assets were not significant as of December 31, 2018. The Current portion of deferred revenues and the Long-term portion of deferred revenues were \$1.25 billion and \$512.8 million, respectively, as of January 1, 2018 and \$1.35 billion and \$489.3 million, respectively, as of December 31, 2018. The difference in the opening and closing balances of the Company's contract assets and liabilities primarily results from the timing difference between the Company's performance and the customer's payment. During the year ended December 31, 2018, the Company recognized \$1.25 billion of revenue that was included in the deferred revenue balance as of January 1, 2018.

The Company performs its obligations under a contract with a customer by transferring solutions and services in exchange for consideration from the customer. Accounts receivable are recorded when the right to consideration becomes unconditional. The timing of the Company's performance often differs from the timing of the customer's payment, which results in the recognition of a contract asset or a contract liability. The Company recognizes a contract asset when the Company transfers products or services to a customer and the right to consideration is conditional on something other than the passage of time. The Company recognizes a contract liability when it has received consideration or an amount of consideration is due from the customer and the Company has a future obligation to transfer products or services. The Company had no asset impairment charges related to contract assets as of December 31, 2018.

For the Company's software and hardware products, the timing of payment is typically upfront for its perpetual offerings and the Company's on-premise subscriptions. Therefore, deferred revenue is created when a contract includes performance obligations such as license updates and maintenance or certain professional services that are satisfied over time. For subscription contracts, the timing of payment is typically in advance of services, and deferred revenue is created as these services are provided over time.

A significant portion of the Company's contracts have an original duration of one year or less; therefore, the Company applies a practical expedient to determine whether a significant financing component exists and does not consider the effects of the time value of money. For multi-year contracts, the Company bills annually.

## Transaction price allocated to the remaining performance obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period (in thousands):

	<1-3 years	3-5 years	5 years or more	Total
Subscription	\$431,527	\$45,790	\$535	\$477,852
Support and services	1,637,387	55,738	2,059	1,695,184
Total net revenues	\$2,068,914	\$101,528	\$2,594	\$2,173,036

## Product Concentration

The Company derives a substantial portion of its revenues from its Digital Workspace solutions, which include its Citrix Virtual Apps and Desktops solutions and related services, and anticipates that these solutions and future

derivative solutions and product lines based upon this technology will continue to constitute a majority of its revenue. The Company could experience declines in demand for its Digital Workspace solutions and other solutions, whether as a result of general economic conditions, the delay or reduction in technology purchases, new competitive product releases, price competition, and lack of success of its strategic partners, technological change or other factors. Additionally, the Company's Networking products generate revenues from a limited number of customers. As a result, if the Networking product grouping loses certain customers

F- 18

---

CITRIX SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

or one or more such customers significantly decreases its orders, the Company's business, results of operations and financial condition could be adversely affected.

Cost of Net Revenues

Cost of subscription, support and services revenues consists primarily of compensation and other personnel-related costs of providing technical support, consulting, cloud capacity costs, as well as the costs related to providing the Company's offerings delivered via the cloud.

Cost of product and license revenues consists primarily of hardware, royalties, product media and duplication, manuals, shipping expense, and packaging materials. In addition, the Company is a party to licensing agreements with various entities, which give the Company the right to use certain software code in its solutions or in the development of future solutions in exchange for the payment of fixed fees or amounts based upon the sales of the related product. The licensing agreements generally have terms ranging from one to five years, and generally include renewal options. However, some agreements are perpetual unless expressly terminated. Royalties and other costs related to these agreements are also included in Cost of net revenues.

Also included in Cost of net revenues is amortization and impairment of product related intangible assets.

Foreign Currency

The functional currency for all of the Company's wholly-owned foreign subsidiaries is the U.S. dollar. Monetary assets and liabilities of such subsidiaries are remeasured into U.S. dollars at exchange rates in effect at the balance sheet date, and revenues and expenses are remeasured at average rates prevailing during the year. Foreign currency transaction gains and losses are the result of exchange rate changes on transactions denominated in currencies other than the functional currency, including U.S. dollars. The remeasurement of those foreign currency transactions is included in determining net income or loss for the period of exchange.

Advertising Costs

The Company expenses advertising costs as incurred. The Company has advertising agreements with, and purchases advertising from, online media providers to advertise its solutions. The Company also has cooperative advertising agreements with certain distributors and resellers whereby the Company will reimburse distributors and resellers for qualified advertising of Company solutions. Reimbursement is made once the distributor, reseller or provider provides substantiation of qualified expenses. The Company estimates the impact of these expenses and recognizes them at the time of product sales as a reduction of net revenue in the accompanying consolidated statements of income. The total costs the Company recognized related to advertising were approximately \$99.1 million, \$85.6 million and \$72.8 million, during the years ended December 31, 2018, 2017 and 2016, respectively.

Income Taxes

The Company and one or more of its subsidiaries are subject to U.S. federal income taxes in the United States, as well as income taxes of multiple state and foreign jurisdictions. The Company is not currently under examination by the United States Internal Revenue Service. With few exceptions, the Company is generally not subject to examination for state and local income tax, or in non-U.S. jurisdictions by tax authorities for years prior to 2015.

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

The Company is required to estimate its income taxes in each of the jurisdictions in which it operates as part of the process of preparing its consolidated financial statements. The authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company reviews deferred tax assets periodically for

recoverability and makes estimates and judgments regarding the expected geographic sources of taxable income and gains from investments, as well as tax planning strategies in assessing the need for a valuation allowance.

F- 19

---

## Accounting for Stock-Based Compensation Plans

The Company has various stock-based compensation plans for its employees and outside directors and accounts for stock-based compensation arrangements in accordance with the authoritative guidance, which requires the Company to measure and record compensation expense in its consolidated financial statements using a fair value method. See Note 8 for further information regarding the Company's stock-based compensation plans.

## Earnings per Share

Basic earnings per share is calculated by dividing income available to stockholders by the weighted-average number of common shares outstanding during each period. Diluted earnings per share is computed using the weighted-average number of common and dilutive common share equivalents outstanding during the period. Dilutive common share equivalents consist of shares issuable upon the exercise or settlement of stock awards and shares issuable under the employee stock purchase plan (calculated using the treasury stock method) during the period they were outstanding and potential dilutive common shares from the conversion spread on the Company's Convertible Notes and the Company's warrants. During the years ended December 31, 2017 and December 31, 2016, the computation of diluted earnings per share does not include common stock issuable upon the exercise of the Company's warrants because the effect would have been anti-dilutive. The reconciliation of the numerator and denominator of the earnings per share calculation is presented in Note 15.

## 3. DISCONTINUED OPERATIONS

On January 31, 2017, the Company completed the Spin-off and its financial results are presented as (Loss) income from discontinued operations, net of income tax expense in the consolidated statements of income. The following table presents the financial results of the GoTo Business through the date of the Spin-off for the indicated periods and do not include corporate overhead allocations:

	2017	2016
	(in thousands)	
Net revenues	\$58,215	\$682,185
Cost of net revenues	15,456	154,652
Gross margin	42,759	527,533
Operating expenses:		
Research and development	9,108	93,892
Sales, marketing and services	20,881	209,475
General and administrative	7,636	63,270
Amortization of other intangible assets	1,176	14,097
Restructuring	3,189	3,721
Separation	40,573	54,084
Total operating expenses	82,563	438,539
(Loss) income from discontinued operations before income taxes	(39,804 )	88,994
Income tax expense	2,900	22,737
(Loss) income from discontinued operations, net of income tax	\$(42,704)	\$66,257

The Company incurred significant costs in connection with the separation of its GoTo Business, which were primarily included in discontinued operations. These costs relate primarily to third-party advisory and consulting services, retention payments to certain employees, incremental stock-based compensation and other costs directly related to the separation of the GoTo Business. During the years ended December 31, 2017 and 2016, the Company incurred \$0.5 million and \$2.5 million of separation costs in continuing operations, which are included in General and

administrative expense in the accompanying consolidated statements of income.

As a result of the Spin-off, the Company recorded a \$475.2 million reduction in retained earnings which included net assets of \$461.8 million as of January 31, 2017. Of this amount, \$28.5 million represents cash transferred to the GoTo Business, with the remainder considered a non-cash activity in the consolidated statements of cash flows. The Spin-off also resulted in a reduction of Accumulated other comprehensive loss associated with foreign currency translation adjustments of \$13.4 million, which was reclassified to Retained earnings.

F- 20

---

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 4. ACQUISITIONS

##### 2018 Business Combinations

##### Sapho, Inc.

On November 13, 2018, the Company acquired all of the issued and outstanding securities of Sapho, Inc. (“Sapho”), whose technology is intended to advance the Company’s development of the intelligent workspace. The acquired technology enables efficient workstyles by creating a unified and customizable notification experience for business applications. The total preliminary cash consideration for this transaction was \$182.9 million, net of \$3.7 million cash acquired. Transaction costs associated with the acquisition were not significant.

##### Cedexis, Inc.

On February 6, 2018, the Company acquired all of the issued and outstanding securities of Cedexis, Inc. (“Cedexis”) whose solution is a real-time data driven service for dynamically optimizing the flow of traffic across public clouds and data centers that provides a dynamic and reliable way to route and manage Internet performance for customers moving towards hybrid and multi-cloud deployments. The total cash consideration for this transaction was \$66.0 million, net of \$6.0 million cash acquired. Transaction costs associated with the acquisition were not significant.

##### Purchase Accounting for the 2018 Business Combinations

The purchase prices for the companies acquired during the year ended December 31, 2018, which include Sapho and Cedexis (collectively, the "2018 Business Combinations"), were allocated to the respective acquired company's net tangible and intangible assets based on their estimated fair values as of the date of the acquisition. The allocation of the total purchase prices is summarized below (in thousands):

	Sapho		Cedexis	
	Purchase		Purchase	
	Price	Asset Life	Price	Asset Life
	Allocation		Allocation	
Current assets	\$4,671		\$8,961	
Intangible assets	53,600	5 years	27,200	1-6 years
Goodwill	144,173	Indefinite	44,003	Indefinite
Deferred taxes	—		3,173	
Other assets	—		69	
Assets acquired	202,444		83,406	
Current liabilities assumed	3,323		5,711	
Assumed debt	—		5,674	
Other long term liabilities assumed	370		—	
Deferred taxes	12,094		—	
Net assets acquired	\$186,657		\$72,021	

Current assets acquired in connection with the 2018 Business Combinations consisted primarily of cash, accounts receivable and other short-term assets. Current liabilities assumed in connection with the 2018 Business Combinations consisted primarily of accounts payable and other accrued expenses. Assumed debt for the Cedexis acquisition consisted primarily of short-term and long-term debt, which was paid in full subsequent to the acquisition date. The Company continues to evaluate certain assets and liabilities related to the Sapho acquisition that may be subject to change through the remainder of the measurement period, which will extend not more than twelve months from the acquisition date.

The goodwill related to the 2018 Business Combinations is not deductible for tax purposes and is comprised primarily of expected synergies from combining operations and other intangible assets that do not qualify for separate recognition.





CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Identifiable intangible assets acquired in connection with the 2018 Business Combinations (in thousands) and the weighted-average lives are as follows:

	Sapho	Asset Life	Cedexis	Asset Life
Customer relationships	\$ 1,600	5 years	\$ 2,000	1 year
Developed technology	52,000	5 years	23,800	5-6 years
Tradenames	—		1,400	1 year
Total	\$ 53,600		\$ 27,200	

The Company has included the effect of the 2018 Business Combinations in its results of operations prospectively from the date of acquisition. The following unaudited pro-forma information combines the consolidated results of the operations of the Company and the 2018 Business Combinations as if the acquisitions had occurred on January 1, 2017, the first day of the Company's fiscal year 2017 (in thousands):

	Twelve Months Ended	
	December 31	
	2018	2017
Revenues	\$2,977,155	\$2,838,880
Income from continuing operations	651,047	530,470
Net income (loss)	550,985	(56,601 )

#### 2017 Business Combination

On January 3, 2017, the Company acquired all of the issued and outstanding securities of Unidesk Corporation ("Unidesk"). The Company acquired Unidesk to enhance its application management and delivery offerings. The total cash consideration for this transaction was \$60.4 million, net of \$2.7 million of cash acquired. Transaction costs associated with the acquisition were not significant.

#### 5. INVESTMENTS

##### Available-for-sale Investments

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

Description of the Securities	December 31, 2018				December 31, 2017			
	Amortized Cost	Gross	Gross	Fair Value	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses			Unrealized Gains	Unrealized Losses	
Agency securities	\$314,982	\$ 333	\$(2,367 )	\$312,948	\$441,315	\$ 509	\$(2,760 )	\$439,064
Corporate securities	612,698	116	(4,156 )	608,658	810,444	268	(3,020 )	807,692
Municipal securities	2,500	4	—	2,504	3,965	2	(2 )	3,965
Government securities	234,668	91	(935 )	233,824	367,595	44	(1,516 )	366,123
Total	\$1,164,848	\$ 544	\$(7,458 )	\$1,157,934	\$1,623,319	\$ 823	\$(7,298 )	\$1,616,844

The change in net unrealized (losses) gains on available-for-sale securities recorded in Other comprehensive income (loss) includes unrealized (losses) gains that arose from changes in market value of specifically identified securities that were held during the period, gains (losses) that were previously unrealized, but have been recognized in current period net income due to sales and other than temporary impairments, as well as prepayments of available-for-sale investments purchased at a premium. See Note 16 for more information related to comprehensive income.

The average remaining maturities of the Company's short-term and long-term available-for-sale investments at December 31, 2018 were approximately 6 months and 2 years, respectively.



## CITRIX SYSTEMS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Realized Gains and Losses on Available-for-sale Investments**

For the years ended December 31, 2018 and 2017, the Company had realized gains on the sales of available-for-sale investments of \$0.1 million and \$0.8 million, respectively. For the years ended December 31, 2018 and 2017, the Company had realized losses on available-for-sale investments of \$1.5 million and \$0.5 million, respectively, primarily related to sales of these investments during the period. All realized gains and losses related to the sales of available-for-sale investments are included in Other (expense) income, net, in the accompanying consolidated statements of income.

**Unrealized Losses on Available-for-Sale Investments**

The Company regularly reviews its investments for impairments based on criteria that include the duration of the market decline and the Company's ability to hold its investment until recovery of its amortized cost basis. During the year ended December 31, 2018, the Company recorded an other than temporary impairment of \$4.6 million of certain available-for-sale securities, which was included in Other (expense) income, net in the accompanying consolidated statements of income.

The gross unrealized losses on the Company's available-for-sale investments that are not deemed to be other-than-temporarily impaired were \$2.9 million and \$7.3 million as of December 31, 2018 and 2017, respectively. Because the Company does not intend to sell any of its investments in an unrealized loss position, other than as noted above, and it is more likely than not that it will not be required to sell the securities before the recovery of its amortized cost basis, which may not occur until maturity, it does not consider these securities to be other-than-temporarily impaired.

**Equity Securities without Readily Determinable Fair Values**

The Company held direct investments in privately-held companies of approximately \$13.4 million as of December 31, 2018, which are accounted for at cost, less impairment plus or minus adjustments resulting from observable price changes in orderly transactions for an identical or a similar investment of the same issuer. These investments are included in Other assets in the accompanying consolidated balance sheets. The Company periodically reviews these investments for impairment and observable price changes on a quarterly basis, and adjusts the carrying value accordingly. The Company determined that there were no material adjustments resulting from observable price changes to the Company's investments in privately-held companies without a readily determinable fair value for the year ended December 31, 2018. The fair value of these investments represents a Level 3 valuation as the assumptions used in valuing these investments are not directly or indirectly observable. See Note 6 for detailed information on fair value measurements.

**Equity Securities Accounted for at Net Asset Value**

The Company held equity interests in certain private equity funds of \$10.9 million as of December 31, 2018, which are accounted for under the net asset value practical expedient. These investments are included in Other assets in the accompanying consolidated balance sheets. The net asset value of these investments is determined using quarterly capital statements from the funds, which are based on the Company's contributions to the funds, allocation of profit and loss and changes in fair value of the underlying fund investments.

For 2017, the Company's investments in privately-held companies and private equity funds were previously classified as cost method investments and were \$18.6 million as of December 31, 2017. Due to the Company's adoption of the accounting standard update for the recognition and measurement of financial assets and liabilities, effective January 1, 2018, these investments are now accounted for under the new basis of accounting referenced above. See Note 2 for detailed information regarding the Company's recent accounting pronouncements.

**6. FAIR VALUE MEASUREMENTS**

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

- Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

F- 23

---

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 (the “Service”) which uses quoted market prices for identical or comparable instruments rather than direct observations of quoted prices in active markets. The Service applies a four level hierarchical pricing methodology to all of the Company’s fixed income securities based on the circumstances. The hierarchy starts with the highest priority pricing source, then subsequently uses inputs obtained from other third-party sources and large custodial institutions. 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 the Company’s available-for-sale investments are valued utilizing inputs obtained from the Service and accordingly are categorized as Level 2 in the table below. The Company periodically independently assesses the pricing obtained from the Service and historically has 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.

The Company’s 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

	As of December 31, 2018	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets:				
Cash and cash equivalents:				
Cash	\$505,363	\$ 505,363	\$ —	\$ —
Money market funds	88,126	88,126	—	—
Agency securities	3,296	—	3,296	—
Corporate securities	9,371	—	9,371	—
Government securities	12,610	—	12,610	—
Available-for-sale securities:				
Agency securities	312,948	—	312,948	—
Corporate securities	608,658	—	607,945	713
Municipal securities	2,504	—	2,504	—
Government securities	233,824	—	233,824	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	764	—	764	—
Total assets	\$1,777,464	\$ 593,489	\$ 1,183,262	\$ 713
Accrued expenses and other current liabilities:				
Foreign currency derivatives	2,543	—	2,543	—
Total liabilities	\$2,543	\$ —	\$ 2,543	\$ —

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	As of December 31, 2017	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)				
Assets:				
Cash and cash equivalents:				
Cash	\$556,520	\$ 556,520	\$ —	\$ —
Money market funds	555,826	555,826	—	—
Corporate securities	2,784	—	2,784	—
Available-for-sale securities:				
Agency securities	439,064	—	439,064	—
Corporate securities	807,692	—	807,299	393
Municipal securities	3,965	—	3,965	—
Government securities	366,123	—	366,123	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	2,498	—	2,498	—
Total assets	\$2,734,472	\$ 1,112,346	\$ 1,621,733	\$ 393
Accrued expenses and other current liabilities:				
Foreign currency derivatives	814	—	814	—
Total liabilities	\$814	\$ —	\$ 814	\$ —

The Company's fixed income available-for-sale security portfolio generally consists of investment grade securities from diverse issuers with a minimum credit rating of A-/A3 and a weighted-average credit rating of AA-/Aa3. The Company values 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, and accordingly, the Company classifies all of its fixed income available-for-sale securities as Level 2.

The Company measures its cash flow hedges, which are classified as Prepaid expenses and other current assets and Accrued expenses and other current liabilities, at fair value based on indicative prices in active markets (Level 2 inputs).

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

During 2018, certain direct investments in privately-held companies with a combined carrying value of \$2.8 million were determined to be impaired and written down to their fair values of \$1.9 million, resulting in impairment charges of \$0.9 million. During 2017, the Company determined that certain cost method investments with a combined carrying value of \$2.6 million were determined to be impaired and have been written down to their fair values of \$1.2 million resulting in impairment charges of \$1.4 million. The impairment charges are included in Other (expense) income, net in the accompanying consolidated statements of income for the years ended December 31, 2018 and 2017. In determining the fair value of the investments, the Company considers many factors including but not limited to operating performance of the investee, the amount of cash that the investee has on-hand, the ability to obtain additional financing and the overall market conditions in which the investee operates.

#### Additional Disclosures Regarding Fair Value Measurements

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

As of December 31, 2018, the fair value of the 2027 Notes and Convertible Notes, which was determined based on inputs that are observable in the market (Level 2), based on the closing trading price per \$100 as of the last day of trading for the year ended December 31, 2018, and carrying value of debt instruments (carrying value excludes the equity component of the Company's Convertible Notes classified in equity) was as follows (in thousands):

Edgar Filing: CITRIX SYSTEMS INC - Form 10-K

	Fair Value	Carrying Value
2027 Notes	\$717,375	\$741,825
Convertible Senior Notes	\$1,648,567	\$1,155,445

F- 25

---



CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

See Note 13 for more information on the 2027 Notes and Convertible Notes.

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses consist of the following:

	December 31,	
	2018	2017
	(In thousands)	
Accrued compensation and employee benefits	\$ 196,847	\$ 161,049
Other accrued expenses	93,645	116,630
Total	\$290,492	\$277,679

8. EMPLOYEE STOCK-BASED COMPENSATION AND BENEFIT PLANS

Plans

The Company's stock-based compensation program is a long-term retention program that is intended to attract and reward talented employees and align stockholder and employee interests. As of December 31, 2018, the Company had one stock-based compensation plan under which it was granting equity awards. The Company is currently granting stock-based awards from its Amended and Restated 2014 Equity Incentive Plan (the "2014 Plan"), which was approved at the Company's Annual Meeting of Stockholders on June 22, 2017. In connection with certain of the Company's acquisitions, the Company has assumed certain plans from acquired companies. The Company's Board of Directors has provided that no new awards will be granted under the Company's acquired stock plans. Awards previously granted under the Company's superseded stock plans that are still outstanding typically expire between five and ten years from the date of grant and will continue to be subject to all the terms and conditions of such plans, as applicable. The Company's superseded stock plans with outstanding awards include the Amended and Restated 2005 Equity Incentive Plan ("2005 Plan").

Under the terms of the 2014 Plan, the Company is authorized to grant incentive stock options ("ISOs"), non-qualified stock options ("NSOs"), non-vested stock, non-vested stock units, stock appreciation rights ("SARs"), and performance units and to make stock-based awards to full and part-time employees of the Company and its subsidiaries or affiliates, where legally eligible to participate, as well as to consultants and non-employee directors of the Company. ISOs, NSOs and SARs are not currently being granted. Currently, the 2014 Plan provides for the issuance of 46,000,000 shares of common stock. In addition, shares of common stock underlying any awards granted under the Company's 2014 Plan or the 2005 Plan that are forfeited, canceled or otherwise terminated (other than by exercise) are added to the shares of common stock available for issuance under the 2014 Plan. Under the 2014 Plan, NSOs must be granted at exercise prices no less than fair market value on the date of grant. Non-vested stock awards may be granted for such consideration in cash, other property or services, or a combination thereof, as determined by the Company's Compensation Committee of its Board of Directors. Stock-based awards are generally exercisable or issuable upon vesting. The Company's policy is to recognize compensation cost for awards with only service conditions and a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. As of December 31, 2018, there were 20,837,415 shares of common stock reserved for issuance pursuant to the Company's stock-based compensation plans, including authorization under its 2014 Plan to grant stock-based awards covering 14,935,686 shares of common stock.

In December 2014, the Company's Board of Directors approved the 2015 Employee Stock Purchase Plan (the "2015 ESPP"), which was approved by stockholders at the Company's Annual Meeting of Stockholders held on May 28, 2015. Under the 2015 ESPP, all full-time and certain part-time employees of the Company are eligible to purchase common stock of the Company twice per year at the end of a six-month payment period (a "Payment Period"). During each Payment Period, eligible employees who so elect may authorize payroll deductions in an amount no less than 1% nor greater than 10% of his or her base pay for each payroll period in the Payment Period. At the end of each Payment Period, the accumulated deductions are used to purchase shares of common stock from the Company up to a maximum of 12,000 shares for any one employee during a Payment Period. Shares are purchased at a price equal to 85% of the fair market value of the Company's common stock, on either the first business day of the Payment Period or the last business day of the Payment Period, whichever is lower. Employees who, after exercising their rights to

purchase shares of common stock in the 2015 ESPP, would own shares representing 5% or more of the voting power of the Company's common stock, are ineligible to continue to participate under the 2015 ESPP. The 2015 ESPP provides for the issuance of a maximum of 16,000,000 shares of common stock. As of December 31, 2018, 1,721,924 shares have been issued under the 2015 ESPP. The Company recorded stock-based compensation costs related to its employee stock purchase plan of \$9.8 million, \$10.0 million and \$7.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

F- 26

---

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company used the Black-Scholes model to estimate the fair value of the 2015 ESPP awards with the following weighted-average assumptions:

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
Expected volatility factor	0.26 - 0.29	0.27 - 0.29	0.27 - 0.41
Risk free interest rate	1.12% - 2.19%	0.60% - 1.12%	0.25% - 0.42%
Expected dividend yield	0% - 1.27%	0	% 0 %
Expected life (in years)	0.5	0.5	0.5

The Company determined the expected volatility factor by considering the implied volatility in six-month market-traded options of the Company's common stock based on third party volatility quotes. The Company's decision to use implied volatility was based upon the availability of actively traded options on the Company's common stock and its assessment that implied volatility is more representative of future stock price trends than historical volatility. The risk-free interest rate was based on a U.S. Treasury instrument whose term is consistent with the expected term of the stock options. The Company's historical dividend yield input was zero in prior periods as it has not historically paid cash dividends on its common stock. The current dividend yield has been updated for expected dividend yield payout given the Company started paying a recurring quarterly dividend beginning in December 2018. The expected term is based on the term of the purchase period for grants made under the ESPP.

#### Expense Information

As required by the authoritative guidance prior to January 1, 2017, the Company estimated forfeitures of stock awards and recognized compensation costs only for those awards expected to vest. Forfeiture rates were determined based on historical experience. The Company also considered whether there had been any significant changes in facts and circumstances that would affect its forfeiture rate quarterly. Estimated forfeitures were adjusted to actual forfeiture experience as needed. Subsequent to January 1, 2017, in connection with the adoption of an accounting standard update, the Company made a policy election to account for forfeitures as they occur rather than on an estimated basis. The Company recorded stock-based compensation costs, related deferred tax assets and tax benefits of \$203.6 million, \$39.7 million and \$49.7 million, respectively, in 2018, \$165.1 million, \$46.1 million and \$72.9 million, respectively, in 2017 and \$152.7 million, \$53.5 million and \$64.7 million, respectively, in 2016.

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

Income Statement Classifications	2018	2017	2016
Cost of subscription, support and services	\$7,979	\$4,281	\$2,179
Research and development	66,154	47,291	38,578
Sales, marketing and services	72,406	55,173	48,514
General and administrative	57,080	58,375	63,468
Total	\$203,619	\$165,120	\$152,739

#### Non-vested Stock Units

##### Market Performance and Service Condition Stock Units

In March 2017, the Company granted senior level employees non-vested stock unit awards representing, in the aggregate, 275,148 non-vested stock units that vest based on certain target performance and service conditions. The number of non-vested stock units underlying the award will be determined within sixty days of the three-year performance period ending December 31, 2019. The attainment level under the award will be based on the Company's relative total return to stockholders over the performance period compared to a pre-established custom index group. If the Company's relative total return to stockholders is between the 41st percentile and the 80th percentile when compared to the index companies, the number of non-vested stock units earned will be based on interpolation. The maximum number of non-vested stock units that may vest pursuant to the awards is capped at 200% of the target

number of non-vested stock units set forth in the award agreement and is earned if the Company's relative total return to stockholders when compared to the index companies is at or greater than the 80th percentile. If the Company's total return to stockholders is negative, the number of non-vested stock units earned will be no more than 100% regardless of the Company's relative total return to stockholders compared to the index companies. If the awardee is not

F- 27

---

## CITRIX SYSTEMS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

employed by the Company at the end of the performance period, the extent to which the awardee will vest in the award, if at all, is dependent upon the timing and character of the termination as provided in the award agreement. Each non-vested stock unit, upon vesting, represents the right to receive one share of the Company's common stock. Certain awards for senior level employees, none of whom were executive officers, were modified in December 2018 to replace the pre-established custom index group used to measure performance and related award payout to companies that are part of the Nasdaq Composite index. As a result, the awards were revalued as of the modification date. The impact of the modification was not material to the consolidated financial statements.

In January 2016, the Company granted its former Chief Executive Officer 220,235 non-vested stock units that vest based on certain target performance conditions; and in March 2016, the Company granted senior level employees 234,816 non-vested stock units that vest based on certain target performance conditions. These awards were modified as a result of the Spin-off whereby the opening stock price related to the awards was updated to reflect the value of the shares of LogMeIn stock distributed to the Company's shareholders. The attainment level under the awards will be based on the Company's compound annualized total return to stockholders over a three-year performance period, with 100% of such stock units earned if the Company achieves total shareholder return of 10% over the performance period. Further, if the Company achieves annualized total shareholder return of less than 10% during the performance period, the awardees may earn all or a portion of the target award, but not in excess of 100% of such stock units, depending upon the Company's relative total shareholder return compared to companies listed in the S&P Computer Software Select Index. If the Company's compound annualized total shareholder return is 5% or above, the number of non-vested stock units earned will be based on interpolation, with the maximum number of non-vested stock units earned capped at 200% of the target number of non-vested stock units for a compound annualized total return to stockholders of 30% over a three-year performance period as set forth in the award agreement. Within sixty days following an interim measurement period of 18 months, the Compensation Committee will determine the number of restricted stock units that would be deemed earned based on performance to date, and up to 33% of the target award may be earned based on such performance; however, any stock units that are deemed earned will remain subject to continued service vesting until the end of the three-year performance period, or a change in control, if earlier. Within sixty days following the conclusion of the performance period, the Company's Compensation Committee will determine the number of restricted stock units that would vest upon the final day of the performance period based on the Company's performance during the period and in accordance with the terms of the award. On the vesting date, the greater of the full period restricted stock units, or the interim earned restricted stock units, will vest in one installment. The market condition requirements are reflected in the grant date fair value of the award, and the compensation expense for the award will be recognized assuming that the requisite service is rendered regardless of whether the market conditions are achieved. The grant date fair value of the non-vested performance stock unit awards was determined through the use of a Monte Carlo simulation model, which utilized multiple input variables that determined the probability of satisfying the market condition requirements applicable to each award as follows:

	March 2017 Grant (Modified)	March 2017 Grant	March 2016 Grant	January 2016 Grant	
Expected volatility factor	0.16 - 0.32	0.27 - 0.32	0.29 - 0.39	0.29 - 0.37	
Risk free interest rate	2.67	% 1.48	% 0.91	% 1.10	%
Expected dividend yield	0	% 0	% 0	% 0	%

For the unmodified March 2017 grant, the range of expected volatilities utilized was based on the historical volatilities of the Company's common stock and the average of its peer group. The Company chose to use historical volatility to value these awards because historical stock prices were used to develop the correlation coefficients between the Company and its peer group in order to model the stock price movements. The volatilities used were calculated over the most recent 2.75 year period, which is commensurate with the awards' performance period at the date of grant. The risk free interest rate was based on the implied yield available on U.S. Treasury zero-coupon issues with remaining terms equivalent to the performance period. The Company used a zero dividend yield input for this award as it had not historically paid cash dividends on its common stock as of the grant date of this award. The estimated fair value of

each award as of the date of grant was \$104.05.

For the modified March 2017 grant, all input variables chosen are as of the modification date. The range of expected volatilities utilized was based on the historical volatilities of the Company's common stock and the average of the Nasdaq Composite index peer group. The Company chose to use historical volatility to value these awards because historical stock prices were used to develop the correlation coefficients between the Company and its peer group in order to model the stock price movements. The volatilities used were calculated over the most recent 1.06 year period, which is commensurate with the awards' remaining performance period at the modification date. The risk free interest rate was based on the implied yield available on U.S. Treasury zero-coupon issues with remaining terms equivalent to the remaining performance period. The

F- 28

---

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Company used a zero dividend yield input for this award as dividends are assumed to be reinvested. The estimated incremental fair value of each modified award as of the modification date was \$99.54.

For the March 2016 and January 2016 grants, the range of expected volatilities utilized was based on the historical volatilities of the Company's common stock and the average of its peer group. The Company chose to use historical volatility to value these awards because historical stock prices were used to develop the correlation coefficients between the Company and its peer group in order to model the stock price movements. The volatilities used were calculated over a 3.00 year period, which is commensurate with the awards' performance period at the date of grant. The risk free interest rate was based on the implied yield available on U.S. Treasury zero-coupon issues with remaining terms equivalent to the performance period. The Company used a zero dividend yield input for this award as it had not historically paid cash dividends on its common stock as of the grant date of this award. The estimated fair value of each award as of the date of grant was \$66.18 for the March 2016 grant and \$49.68 for the January 2016 grant.

#### Service Based Stock Units

The Company also awards senior level employees, certain other employees and new non-employee directors, non-vested stock units granted under the 2014 Plan that vest based on service. The majority of these non-vested stock unit awards generally vest 33.33% on each anniversary subsequent to the date of the award. The Company also assumes non-vested stock units in connection with certain of its acquisitions. The assumed awards have the same three year vesting schedule. Each non-vested stock unit, upon vesting, represents the right to receive one share of the Company's common stock. In addition, the Company awards non-vested stock units to all of its continuing non-employee directors. These awards vest monthly in 12 equal installments based on service and, upon vesting, each stock unit represents the right to receive one share of the Company's common stock.

#### Company Performance Stock Units

In March 2018, the Company awarded senior level employees 268,729 non-vested performance stock unit awards granted under the 2014 Plan. The number of non-vested stock units underlying the award will be determined within sixty days following completion of the performance period ending December 31, 2020 and will be based on the achievement of specific corporate financial performance goals related to subscription bookings as a percentage of total product bookings measured during the period from January 1, 2020 to December 31, 2020. As defined in the applicable award agreements, total product bookings includes subscription bookings. The number of non-vested stock units issued will be based on a graduated slope, with the maximum number of non-vested stock units issuable pursuant to the award capped at 200% of the target number of non-vested stock units set forth in the award agreement. The Company is required to estimate the attainment expected to be achieved related to the defined performance goals and the number of non-vested stock units that will ultimately be awarded in order to recognize compensation expense over the vesting period. Each non-vested stock unit, upon vesting, represents the right to receive one share of the Company's common stock. Compensation expense will be recorded through the end of the performance period on December 31, 2020 if it is deemed probable that the performance goals will be met. If the performance goals are not met, no compensation cost will be recognized and any previously recognized compensation cost will be reversed. On August 1, 2017, the Company awarded certain senior level employees 184,322 non-vested performance stock unit awards granted under the 2014 Plan. The number of non-vested stock units underlying each award will be determined within sixty days of the calendar year following completion of the performance period ending December 31, 2019 and will be based on achievement of specific corporate financial performance goals related to non-GAAP net operating margin and subscription bookings as a percent of total product bookings measured during the period from January 1, 2019 to December 31, 2019. As defined in the applicable award agreements, total product bookings includes subscription bookings. The number of non-vested stock units issued will be based on a graduated slope, with the maximum number of non-vested stock units issuable pursuant to the award capped at 200% of the target number of non-vested stock units set forth in the award agreement. The Company is required to estimate the attainment expected to be achieved related to the defined performance goals and the number of non-vested stock units that will ultimately be awarded in order to recognize compensation expense over the vesting period. Each non-vested stock unit, upon

vesting, represents the right to receive one share of the Company's common stock. The non-GAAP net operating margin and subscription bookings as a percent of total product targets were set in the first quarter of 2018. As a result, such awards were not outstanding for U.S. GAAP until the first quarter of 2018 when the performance goals were determined and subsequently communicated to employees who received these awards. Compensation expense will be recorded through the end of the performance period on December 31, 2019 if it is deemed probable that the performance goals will be met. If the performance goals are not met, no compensation cost will be recognized and any previously recognized compensation cost will be reversed.

F- 29

---



CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Non Vested Stock Unit Activity for the Year

The following table summarizes the Company's non-vested stock unit activity for the year ended December 31, 2018:

	Number of Shares	Weighted- Average Fair Value at Grant Date
Non-vested stock units at December 31, 2017	4,622,546	\$ 82.83
Granted	3,903,225	92.20
Vested	(2,076,052)	71.92
Forfeited	(596,218 )	74.07
Non-vested stock units at December 31, 2018	5,853,501	88.79

For the years ended December 31, 2018, 2017 and 2016, the Company recognized stock-based compensation expense of \$193.8 million, \$149.8 million and \$135.7 million, respectively, related to non-vested stock units. The fair value of the non-vested stock units released in 2018, 2017, and 2016 was \$149.3 million, \$150.0 million and \$163.8 million, respectively. As of December 31, 2018, there was \$376.7 million of total unrecognized compensation cost related to non-vested stock units. The unrecognized cost is expected to be recognized over a weighted-average period of 1.76 years.

Benefit Plan

The Company maintains a 401(k) benefit plan allowing eligible U.S.-based employees to contribute up to 90% of their annual eligible earnings to the plan on a pretax and after-tax basis, including Roth contributions, limited to an annual maximum amount as set periodically by the IRS. The Company, at its discretion, may contribute up to \$0.50 for each dollar of employee contribution. The Company's total matching contribution to an employee is typically made at 3% of the employee's annual compensation. The Company's matching contributions were \$13.0 million, \$13.7 million and \$14.0 million in 2018, 2017 and 2016, respectively. The Company's matching contributions vest immediately.

9. CAPITAL STOCK

Stock Repurchase Programs

The Company's Board of Directors authorized an ongoing stock repurchase program, of which \$1.7 billion was approved in November 2017 and \$750.0 million was approved in October 2018. The Company may use the approved dollar authority to repurchase stock at any time until the approved amount is exhausted. The objective of the Company's stock repurchase program is to improve stockholders' returns. At December 31, 2018, approximately \$767.9 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock. A portion of the funds used to repurchase stock over the course of the program was provided by net proceeds from the Convertible Notes and 2027 Notes offerings, as well as proceeds from employee stock awards exercises and the related tax benefit. The Company is authorized to make open market purchases of its common stock using general corporate funds through open market purchases, pursuant to a Rule 10b5-1 plan or in privately negotiated transactions.

In November 2017, the Company purchased \$750.0 million of shares of its common stock through the ASR agreement with the ASR counterparty. The Company paid \$750.0 million to the ASR counterparty under the ASR agreement and received approximately 7.1 million shares of its common stock from the ASR counterparty, which represented 80 percent of the value of the shares to be repurchased pursuant to the ASR agreement. The total number of shares of common stock that the Company repurchased under the ASR agreement was based on the average of the daily volume-weighted average prices of its common stock during the term of the ASR agreement, less a discount. Final settlement of the ASR agreement was completed in January 2018 and the Company received delivery of an additional 1.4 million shares of its common stock.

In February 2018, the Company entered into an ASR transaction with a counterparty to pay an aggregate of \$750.0 million in exchange for the immediate delivery of approximately 6.5 million shares of its common stock based on

current market prices. The purchase price per share under the ASR was based on the volume-weighted average price of the Company's common stock during the term of the ASR, less a discount. The ASR was entered into pursuant to the Company's existing share repurchase program. Final settlement of the ASR agreement was completed in April 2018 and the Company received delivery of an additional 1.6 million additional shares of its common stock.

F- 30

---

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the year ended December 31, 2018, the Company expended approximately \$511.2 million on open market purchases under the stock repurchase program, repurchasing 4,730,542 shares of outstanding common stock at an average price of \$108.05

During the year ended December 31, 2017, the Company expended approximately \$575.0 million on open market purchases under the stock repurchase program, repurchasing 7,384,368 shares of outstanding common stock at an average price of \$77.86.

During the year ended December 31, 2016, the Company expended approximately \$28.7 million on open market purchases under the stock repurchase program, repurchasing 426,300 shares of outstanding common stock at an average price of \$67.30.

Shares for Tax Withholding

During the years ended December 31, 2018, 2017 and 2016, the Company withheld 739,522 shares, 974,501 shares and 830,155 shares, respectively, from equity awards that vested. Amounts withheld to satisfy minimum tax withholding obligations that arose on the vesting of equity awards was \$71.6 million, \$80.0 million and \$66.6 million, for 2018, 2017 and 2016, respectively. These shares are reflected as treasury stock in the Company's consolidated balance sheets and the related cash outlays do not reduce the Company's total stock repurchase authority.

Preferred Stock

The Company is authorized to issue 5,000,000 shares of preferred stock, \$0.01 par value per share. No shares of such preferred stock were issued and outstanding at December 31, 2018 or 2017.

Cash Dividend

On October 24, 2018, the Company announced that its Board of Directors approved a quarterly cash dividend of \$0.35 per share which was paid on December 21, 2018 to all shareholders of record as of the close of business on December 7, 2018.

Subsequent Event

On January 23, 2019, the Company announced that its Board of Directors approved a quarterly cash dividend of \$0.35 per share. This dividend is payable on March 22, 2019 to all shareholders of record as of the close of business on March 8, 2019. Future dividends will be subject to Board approval.

10. COMMITMENTS AND CONTINGENCIES

Leases

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

Rental expense for the year ended December 31, 2018 totaled approximately \$73.8 million, of which \$14.2 million related to charges for the consolidation of leased facilities related to restructuring activities. Rental expense for the year ended December 31, 2017 totaled approximately \$64.3 million, of which \$9.7 million related to charges for the consolidation of leased facilities related to restructuring activities. Rental expense for the year ended December 31, 2016 totaled approximately \$84.6 million, of which \$28.9 million related to charges for the consolidation of leased facilities related to restructuring activities. Sublease income for the years ended December 31, 2018, 2017 and 2016 was approximately \$0.2 million, \$0.2 million and \$0.2 million, respectively.

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Lease commitments under non-cancelable operating leases with initial or remaining terms in excess of one year and sublease income associated with non-cancelable subleases, are as follows:

	Operating Sublease	
	Leases	Income
	(In thousands)	
Years ending December 31,		
2019	\$57,122	\$ 241
2020	49,358	—
2021	39,981	—
2022	35,296	—
2023	32,018	—
Thereafter	87,621	—
Total	\$301,396	\$ 241

#### Liabilities for Loss on Lease Obligations

The Company recognizes liabilities for costs that will continue to be incurred under operating lease obligations for their remaining terms without economic benefit to the Company. The liabilities are measured and recorded at their fair values as of the cease-use date (the date the Company vacates the leased space and no longer derives economic benefit from the leases). The liabilities are included in Accrued expenses and other current liabilities and Other long-term liabilities in the consolidated balance sheets and the related expense is included in Restructuring expenses in the consolidated statements of income.

The fair values of the liabilities are determined by discounting certain future cash flows related to the leases using a credit-adjusted risk-free interest rate as of the cease-use date (Level 3). The future cash flows that are discounted include the remaining base rentals due under the leases, reduced by the estimated sublease rentals that could be reasonably obtained for the properties even if the Company has no intention to enter into a sublease. The estimate of sublease rentals may change, which would require future changes to the liabilities for loss on lease obligations.

As of December 31, 2018, the Company's liabilities for loss on lease obligations total approximately \$43.4 million, of which approximately \$42.3 million relates to one office location. The calculation of these liabilities requires judgment in estimating the timing of securing subleases for the vacant space, as well as the terms of possible subleases, including the length of the sublease periods, sublease rentals, rent concessions and other tenant incentives. While the Company believes that the assumptions used in the calculation of these liabilities are reasonable, due to the inherent uncertainties related to such assumptions, there can be no assurance that the Company will be able to secure such subleases within the timing assumed in its calculations, or at all, and with terms consistent with the assumptions used. In this office location, if the price per square foot assumption were to change by \$0.50 or approximately 20%, it would impact the estimate of sublease rentals, which would result in a change of \$4.9 million to the liabilities for loss on lease obligation.

#### Legal Matters

The Company accrues a liability for legal contingencies when it believes that it is both probable that a liability has been incurred and that it can reasonably estimate the amount of the loss. The Company reviews these accruals and adjusts them to reflect ongoing negotiations, settlements, rulings, advice of legal counsel and other relevant information. To the extent new information is obtained and the Company's views on the probable outcomes of claims, suits, assessments, investigations or legal proceedings change, changes in the Company's accrued liabilities would be recorded in the period in which such determination is made. In addition, in accordance with the relevant authoritative guidance, for matters in which the likelihood of material loss is at least reasonably possible, the Company provides disclosure of the possible loss or range of loss. If a reasonable estimate cannot be made, however, the Company will provide disclosure to that effect.

Due to the nature of the Company's business, the Company is subject to patent infringement claims, including current suits against it or one or more of its wholly-owned subsidiaries alleging infringement by various Company solutions and services. The Company believes that it has meritorious defenses to the allegations made in its pending cases and

intends to vigorously defend these lawsuits; however, it is unable currently to determine the ultimate outcome of these or similar matters or the potential exposure to loss, if any. In addition, the Company is a defendant in various litigation matters generally arising out of the normal course of business. Although it is difficult to predict the ultimate outcomes of these cases, the Company believes that it is not reasonably possible that the ultimate outcomes will materially and adversely affect its business, financial position, results of operations or cash flows.

F- 32

---

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Guarantees

The authoritative guidance requires certain guarantees to be recorded at fair value and requires a guarantor to make disclosures, even when the likelihood of making any payments under the guarantee is remote. For those guarantees and indemnifications that do not fall within the initial recognition and measurement requirements of the authoritative guidance, the Company must continue to monitor the conditions that are subject to the guarantees and indemnifications, as required under existing generally accepted accounting principles, to identify if a loss has been incurred. If the Company determines that it is probable that a loss has been incurred, any such estimable loss would be recognized. The initial recognition and measurement requirements do not apply to the provisions contained in the majority of the Company's software license agreements that indemnify licensees of the Company's software from damages and costs resulting from claims alleging that the Company's software infringes the intellectual property rights of a third party. The Company has not made material payments pursuant to these provisions as of December 31, 2018. The Company has not identified any losses that are probable under these provisions and, accordingly, the Company has not recorded a liability related to these indemnification provisions.

#### Purchase Obligations

The Company has agreements with suppliers to purchase inventory and estimates its non-cancelable obligations under these agreements for the fiscal year ended December 31, 2019 to be approximately \$5.3 million. The Company also has contingent obligations to purchase inventory for the fiscal year ended December 31, 2019 of approximately \$16.6 million. The Company does not have any purchase obligations beyond December 31, 2019.

#### Other Purchase Commitments

In June 2018, the Company entered into an amended agreement with a third-party provider for the Company's use of certain cloud services through June 2021. Under the amended agreement, the Company is committed to a purchase of \$25.0 million in fiscal year 2019 and \$25.0 million in fiscal year 2020.

### 11. INCOME TAXES

The Company is required to estimate its income taxes in each of the jurisdictions in which it operates as part of the process of preparing its consolidated financial statements. The Company maintains certain strategic management and operational activities in overseas subsidiaries and its foreign earnings are taxed at rates that are generally lower than in the United States.

On December 22, 2017, President Donald Trump signed the Tax Cuts and Jobs Act (the "2017 Tax Act") into law effective January 1, 2018. The 2017 Tax Act significantly revised the U.S. tax code by, in part but not limited to: reducing the U.S. corporate maximum tax rate from 35% to 21%, imposing a mandatory one-time transition tax on certain un-repatriated earnings of foreign subsidiaries, modifying executive compensation deduction limitations, and repealing the deduction for domestic production activities. Under Accounting Standards Codification 740, Income Taxes, the Company must recognize the effects of tax law changes in the period in which the new legislation is enacted.

The SEC staff acknowledged the challenges companies face incorporating the effects of the 2017 Tax Act by their financial reporting deadlines. In response, on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete accounting for certain income tax effects of the 2017 Tax Act. During the period ended December 31, 2018, the Company completed the accounting for the tax effects of all of the provisions of the 2017 Tax Act within the required measurement period and as a result recorded adjustments to the previous provisional amounts. Adjustments recorded during the period ended December 31, 2018 include in part a tax benefit of \$26.3 million attributable to a tax benefit of \$21.9 million related to the finalization of the one-time transition tax on deemed repatriation of foreign income and a tax benefit of \$4.4 million related to the finalization of the remeasurement of the U.S. deferred tax assets and liabilities due to the maximum U.S. federal corporate rate reduction from 35% to 21%.



CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The United States and foreign components of income before income taxes are as follows:

	2018	2017	2016
	(In thousands)		
United States	\$174,519	\$78,897	\$59,344
Foreign	454,936	471,449	468,426
Total	\$629,455	\$550,346	\$527,770

The components of the provision for income taxes are as follows:

	2018	2017	2016
	(In thousands)		
Current:			
Federal	\$(19,461)	\$374,602	\$18,832
Foreign	70,146	56,526	52,978
State	16,259	3,075	7,759
Total current	66,944	434,203	79,569
Deferred:			
Federal	1,899	52,842	(7,688 )
Foreign	(14,804 )	(5,468 )	(3,139 )
State	(251 )	46,784	(10,827 )
Total deferred	(13,156 )	94,158	(21,654 )
Total provision	\$53,788	\$528,361	\$57,915

The following table presents the breakdown of net deferred tax assets:

	December 31,	
	2018	2017
	(In thousands)	
Deferred tax assets	\$136,998	\$152,362
Deferred tax liabilities	(15,075 )	(237 )
Total net deferred tax assets	\$121,923	\$152,125

The significant components of the Company's deferred tax assets and liabilities consisted of the following:

	December 31,	
	2018	2017
	(In thousands)	
Deferred tax assets:		
Accruals and reserves	\$27,022	\$30,317
Deferred revenue	62,085	65,016
Tax credits	81,720	80,772
Net operating losses	54,747	36,674
Stock based compensation	30,936	21,714
Depreciation and amortization	—	4,939
Valuation allowance	(85,400 )	(76,789 )
Total deferred tax assets	171,110	162,643
Deferred tax liabilities:		
Acquired technology	(15,681 )	(2,882 )
Depreciation and amortization	(5,044 )	—
Prepaid expenses	(23,213 )	(7,414 )
Other	(5,249 )	(222 )
Total deferred tax liabilities	(49,187 )	(10,518 )
Total net deferred tax assets	\$121,923	\$152,125





CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The authoritative guidance requires a valuation allowance to reduce the deferred tax assets reported if it is not more likely than not that some portion or all of the deferred tax assets will be realized. At December 31, 2018, the Company determined an \$85.4 million valuation allowance was necessary, which relates to deferred tax assets for net operating losses and tax credits that may not be realized.

At December 31, 2018, the Company retained \$172.3 million of remaining net operating loss carry forwards in the United States from acquisitions. The utilization of these net operating loss carry forwards are limited in any one year pursuant to Internal Revenue Code Section 382 and may begin to expire in 2019. At December 31, 2018, the Company held \$111.3 million of remaining net operating loss carry forwards in foreign jurisdictions that begin to expire in 2022. At December 31, 2018, the Company held \$116.6 million of federal and state research and development tax credit carry forwards in the United States, a portion of which may begin to expire in 2019.

A reconciliation of the Company's effective tax rate to the statutory federal rate is as follows:

	Year Ended December 31,		
	2018	2017	2016
Federal statutory taxes	21.0 %	35.0 %	35.0 %
State income taxes, net of federal tax benefit	0.7	2.1	0.8
Foreign operations	(5.4 )	(20.0 )	(21.6 )
Permanent differences	2.0	2.6	3.2
The 2017 Tax Act - tax rate impact on deferred taxes	(0.7 )	11.8	—
The 2017 Tax Act - transition tax	(3.5 )	66.3	—
Change in valuation allowance reserve	0.4	8.8	—
Change in deferred tax liability related to acquired intangibles	(0.1 )	0.3	(0.8 )
Tax credits	(5.8 )	(7.6 )	(7.9 )
Stock-based compensation	(1.9 )	(3.6 )	0.3
Change in accruals for uncertain tax positions	1.8	0.3	2.2
Other	—	—	(0.2 )
	8.5 %	96.0 %	11.0 %

The Company's effective tax rate generally differs from the U.S. federal statutory rate primarily due to lower tax rates on earnings generated by the Company's foreign operations that are taxed primarily in Switzerland.

The 2017 Tax Act subjects a U.S. shareholder to tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income provides that an entity may make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years, or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. Additionally, the 2017 Tax Act provides for a tax benefit to U.S. taxpayers that sell goods or services to foreign customers under the new Foreign Derived Intangible Income Deduction ("FDII") rules. As of December 31, 2018, the Company concluded to provide for the GILTI tax expense and FDII benefit in the year the tax is incurred and as a result the Company included federal and state GILTI and FDII amounts of \$12.8 million expense and \$5.4 million benefit, respectively, related to current-year operations only in its estimated annual effective tax rate and has not provided additional GILTI on deferred items.

The Company's effective tax rate was approximately 8.5% and 96.0% for the years ended December 31, 2018 and 2017, respectively. The decrease in the effective tax rate when comparing the year ended December 31, 2018 to the year ended December 31, 2017 was primarily due to accounting for the estimated tax impact of the 2017 Tax Act and the separation of the GoTo Business. Specifically, results from 2017 include a \$364.6 million provisional income tax charge for the transition tax on deemed repatriation of deferred foreign income, and a \$64.8 million provisional income tax charge for the remeasurement of U.S. deferred tax assets and liabilities because of the maximum U.S. federal corporate rate reduction from 35% to 21%. The Company also recorded a \$48.6 million income tax charge to establish a valuation allowance primarily due to a change in expectation of realizability of state R&D credits arising

from the separation of the GoTo Business. During the year ended December 31, 2018, the Company recorded a tax benefit of \$21.9 million related to the finalization of the one-time transition tax on deemed repatriation of foreign income and a tax benefit of \$4.4 million related to the finalization of the remeasurement of U.S. deferred tax assets and liabilities because of the maximum U.S. federal corporate rate reduction from 35% to 21%.

F- 35

---

## CITRIX SYSTEMS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's effective tax rate was approximately 96.0% and 11.0% for the years ended December 31, 2017 and 2016, respectively. The increase in the effective tax rate when comparing the year ended December 31, 2017 to the year ended December 31, 2016 was primarily due to accounting for the estimated tax impact of the 2017 Tax Act and the separation of the GoTo Business. Specifically, the Company recorded a \$364.6 million provisional income tax charge for the transition tax on deemed repatriation of deferred foreign income, and a \$64.8 million provisional income tax charge for the remeasurement of U.S. deferred tax assets and liabilities because of the maximum U.S. federal corporate rate reduction from 35% to 21%. The Company also recorded a \$48.6 million income tax charge to establish a valuation allowance primarily due to a change in expectation of realizability of state R&D credits arising from the separation of the GoTo Business. These charges were marginally offset by a \$22.0 million tax benefit due to the adoption of an accounting standard update requiring recognition of income tax effects related to stock based compensation when the awards vest or settle.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2018 and 2017 is as follows (in thousands):

Balance at December 31, 2016	\$69,801
Additions based on tax positions related to the current year	9,293
Additions for tax positions of prior years	7,656
Reductions related to audit settlements	(137 )
Reductions related to the expiration of statutes of limitations	(8,764 )
Balance at December 31, 2017	77,849
Additions based on tax positions related to the current year	10,168
Additions for tax positions of prior years	10,325
Reductions related to the expiration of statutes of limitations	(8,436 )
Balance at December 31, 2018	\$89,906

As of December 31, 2018, unrecognized tax benefits of \$35.4 million were offset against long-term deferred tax assets. All amounts included in this balance affect the annual effective tax rate. The Company recognizes interest accrued related to uncertain tax positions and penalties in income tax expense. For the year ended December 31, 2018, the Company accrued \$3.9 million for the payment of interest.

On July 24, 2018, the U.S. Ninth Circuit Court of Appeals overturned the U.S. Tax Court's unanimous decision in *Altera v. Commissioner*, where the Tax Court held the Treasury regulation requiring participants in a qualified cost sharing arrangement share stock-based compensation costs to be invalid. On August 7, 2018, the U.S. Ninth Circuit Court of Appeals, on its own motion, withdrew its July 24, 2018 opinion to allow time for the reconstituted panel to confer. Given the increased uncertainty as to the Ninth Circuit's eventual ruling and the impact it will have on the Internal Revenue Service's ability to challenge the technical merits of the Company's position, the Company accrued amounts for this uncertain tax position as of the year ended December 31, 2018.

The Company and one or more of its subsidiaries are subject to U.S. federal income taxes in the United States, as well as income taxes of multiple state and foreign jurisdictions. The Company is not currently under examination by the United States Internal Revenue Service. With few exceptions, the Company is generally not subject to examination for state and local income tax, or in non-U.S. jurisdictions by tax authorities for years prior to 2015.

The Company's U.S. liquidity needs are currently satisfied using cash flows generated from its U.S. operations, borrowings, or both. The Company also utilizes a variety of tax planning strategies in an effort to ensure that its worldwide cash is available in locations in which it is needed. Prior to 2017, the Company did not recognize a deferred tax liability related to undistributed foreign earnings of its subsidiaries because such earnings were considered to be indefinitely reinvested in its foreign operations, or were remitted substantially free of U.S. tax. Under the 2017 Tax Act, all foreign earnings are subject to U.S. taxation. As a result, the Company expects to repatriate a substantial portion of its foreign earnings over time, to the extent that the foreign earnings are not restricted by local

laws or result in significant incremental costs associated with repatriating the foreign earnings.

F- 36

---

## CITRIX SYSTEMS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 12. SEGMENT INFORMATION

Citrix has one reportable segment. The Company's chief operating decision maker ("CODM") reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. The Company's CEO is the CODM.

International revenues (sales outside of the United States) accounted for approximately 47.0%, 46.3% and 46.3% of the Company's net revenues for the year ended December 31, 2018, 2017, and 2016, respectively.

Long-lived assets consist of property and equipment, net, and are shown below.

	December 31,	
	2018	2017
	(In thousands)	
Property and equipment, net:		
United States	\$ 185,091	\$ 189,465
United Kingdom	25,459	24,171
Other countries	32,846	39,296
Total property and equipment, net	\$ 243,396	\$ 252,932

In fiscal year 2018, one distributor, the Arrow Group, accounted for 14%, of the Company's total net revenues. In fiscal year 2017 and 2016, two distributors, Ingram Micro and Arrow, accounted for 13% and 12%, respectively, of the Company's total net revenues. The Company's distributor arrangements with Ingram Micro and Arrow consist of several non-exclusive, independently negotiated agreements with its subsidiaries, each of which covers different countries or regions.

During 2018, the Company initiated an effort to streamline and simplify its product branding and packaging, which included naming updates to the portfolio to provide clarity on the Company's offerings and unify its sales motions. The change resulted in the Company consolidating its former Content Collaboration product group and Workspace Services product group and renaming the new product group Digital Workspace. As a result, previously reported revenue by product grouping amounts have been recast to conform to the new presentation.

Revenues by product grouping were as follows for the years ended:

	December 31,		
	2018	2017 <sup>(4)</sup>	2016 <sup>(4)</sup>
	(In thousands)		
Net revenues:			
Digital workspace <sup>(1)</sup>	\$ 2,024,289	\$ 1,901,952	\$ 1,821,739
Networking <sup>(2)</sup>	817,193	790,434	782,875
Professional services <sup>(3)</sup>	132,421	132,300	131,466
Total net revenues	\$ 2,973,903	\$ 2,824,686	\$ 2,736,080

(1) Digital Workspace revenues are primarily comprised of sales from the Company's application virtualization solutions, which include Citrix Virtual Apps and Desktops, the Company's unified endpoint management solutions, which include Citrix Endpoint Management, related license updates and maintenance and support, Citrix Content Collaboration, and cloud offerings.

(2) Networking revenues primarily include Citrix ADC and Citrix SD-WAN, related license updates and maintenance and support and cloud offerings.

(3) Professional services revenues are primarily comprised of revenues from consulting services and product training and certification services.

Prior period amounts have not been adjusted under the modified retrospective method of adoption of the revenue recognition standard. See Note 2 for further information regarding the Company's adoption of the revenue recognition standard.



CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenues by Geographic Location

The following table presents revenues by geographic location, for the years ended:

	December 31,		
	2018	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>
	(In thousands)		
Net revenues:			
Americas	\$1,716,876	\$1,644,008	\$1,598,896
EMEA	956,365	888,072	863,517
APJ	300,662	292,606	273,667
Total net revenues	\$2,973,903	\$2,824,686	\$2,736,080

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method of adoption of the revenue recognition standard. See Note 2 for further information regarding the Company's adoption of the revenue recognition standard.

Export revenue represents shipments of finished goods and services from the United States to international customers, primarily in Latin America and Canada. Shipments from the United States to international customers for 2018, 2017 and 2016 were \$141.9 million, \$151.9 million and \$160.5 million, respectively.

13. DEBT

Senior Notes

On November 15, 2017, the Company issued \$750.0 million of unsecured senior notes due December 1, 2027. The 2027 Notes accrue interest at a rate of 4.500% per annum. Interest on the 2027 Notes is due semi-annually on June 1 and December 1 of each year, beginning on June 1, 2018. The net proceeds from this offering were approximately \$741.0 million, after deducting the underwriting discount and estimated offering expenses payable by the Company. Net proceeds from this offering were used to repurchase shares of the Company's common stock through an ASR transaction which the Company entered into with the ASR counterparty on November 13, 2017. The 2027 Notes will mature on December 1, 2027, unless earlier redeemed in accordance with their terms prior to such date. The Company may redeem the 2027 Notes at its option at any time in whole or from time to time in part prior to September 1, 2027 at a redemption price equal to the greater of (i) 100% of the aggregate principal amount of the 2027 Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments under such 2027 Notes, plus in each case, accrued and unpaid interest to, but excluding, the redemption date. Among other terms, under certain circumstances, holders of the 2027 Notes may require the Company to repurchase their 2027 Notes upon the occurrence of a change of control prior to maturity for cash at a repurchase price equal to 101% of the principal amount of the 2027 Notes to be repurchased plus accrued and unpaid interest to, but excluding, the repurchase date.

Credit Facility

Effective January 7, 2015, the Company entered into a Credit Facility with a group of financial institutions (the "Lenders"). The Credit Facility provides for a five year revolving line of credit in the aggregate amount of \$250.0 million, subject to continued covenant compliance. The Company may elect to increase the revolving credit facility by up to \$250.0 million if existing or new lenders provide additional revolving commitments in accordance with the terms of the Credit Agreement. A portion of the revolving line of credit (i) in the aggregate amount of \$25.0 million may be available for issuances of letters of credit and (ii) in the aggregate amount of \$10.0 million may be available for swing line loans, as part of, not in addition to, the aggregate revolving commitments. The Credit Facility bears interest at LIBOR plus 1.10% and adjusts in the range of 1.00% to 1.30% above LIBOR based on the ratio of the Company's total debt to its adjusted earnings before interest, taxes, depreciation, amortization and certain other items ("EBITDA") as defined in the agreement. In addition, the Company is required to pay a quarterly facility fee ranging from 0.125% to 0.20% of the aggregate revolving commitments under the Credit Facility and based on the ratio of the Company's total debt to the Company's consolidated EBITDA. As of December 31, 2018, there were no amounts outstanding under the Credit Facility.



The Credit Agreement contains certain financial covenants that require the Company to maintain a consolidated leverage ratio of not more than 3.5:1.0 and a consolidated interest coverage ratio of not less than 3.0:1.0. In addition, the Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the ability of the Company to grant liens, merge, dissolve or consolidate, dispose of all or substantially all of its assets, pay dividends during the existence of a default under the Credit Agreement, change its business and incur subsidiary indebtedness, in each case subject

F- 38

---

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

to customary exceptions for a credit facility of this size and type. The Company was in compliance with these covenants as of December 31, 2018.

#### Convertible Senior Notes

During 2014, the Company completed a private placement of approximately \$1.44 billion principal amount of 0.500% Convertible Notes due 2019. The net proceeds from this offering were approximately \$1.42 billion, after deducting the initial purchasers' discounts and commissions and the estimated offering expenses payable by the Company. The Company used approximately \$82.6 million of the net proceeds to pay the cost of the Bond Hedges described below (after such cost was partially offset by the proceeds to the Company from the Warrant Transactions described below). The Company used the remainder of the net proceeds from the offering and a portion of its existing cash and investments to purchase an aggregate of approximately \$1.5 billion of its common stock, as authorized under its share repurchase program. The Company purchased approximately \$101.0 million of common stock from certain purchasers of the Convertible Notes in privately negotiated transactions concurrently with the closing of the offering, and purchased approximately \$1.4 billion of additional shares of common stock through an ASR agreement which the Company entered into with the ASR counterparty on April 25, 2014.

The Convertible Notes are governed by the terms of an indenture, dated as of April 30, 2014 (the "Indenture"), between the Company and Wilmington Trust, National Association, as trustee (the "Trustee"). The Convertible Notes are the senior unsecured obligations of the Company and bear interest at a rate of 0.500% per annum, payable semi-annually in arrears on April 15 and October 15 of each year. The Convertible Notes will mature on April 15, 2019, unless earlier repurchased or converted. Upon conversion, the Company will pay cash up to the aggregate principal amount of the Convertible Notes to be converted and deliver shares of common stock, in respect of the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the Convertible Notes being converted.

In accordance with the terms of the Indenture, the conversion rate for the Convertible Notes was adjusted to 13.9510 shares of the Company's common stock per \$1,000 principal amount of the Convertible Notes, which corresponds to a conversion price of \$71.68 per share of common stock, as a result of a cash dividend paid in December 2018. The conversion rate is subject to adjustment from time to time upon the occurrence of certain events, including, but not limited to, the issuance of certain stock dividends on common stock, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness, or assets, the payment of cash dividends and certain issuer tender or exchange offers.

The last reported sale price of the Company's common stock for at least 20 trading days during the period of 30 consecutive trading days ending on September 30, 2018 was greater than or equal to \$93.48 (130% of the conversion price) on each applicable trading day. As a result, each holder of the Company's Convertible Notes had the right to convert any portion of its Convertible Notes (in minimum denominations of \$1,000 in principal amount or an integral multiple thereof) during the fourth quarter of 2018. The sales price condition was also met for the quarter ended June 30, 2018. As of October 15, 2018, the Company received conversion notices from noteholders with respect to \$273.0 million in aggregate principal amount of Convertible Notes requesting conversion as a result of the sales price condition having been met. Accordingly, in accordance with the terms of the Convertible Notes, in the fourth quarter of 2018 the Company made cash payments of this aggregate principal amount and delivered 1.3 million newly issued shares of its common stock in respect of the remainder of the Company's conversion obligation in excess of the aggregate principal amount of the Convertible Notes being redeemed, in full satisfaction of such converted notes. The Company received shares of its common stock under the Bond Hedges (as defined below) that offset the issuance of shares of common stock upon conversion of the Convertible Notes. See the discussion under "Convertible Note Hedge and Warrant Transaction" in this Note 13 for detailed information on the Bond Hedges. In addition, on or after October 15, 2018 until the close of business on the second scheduled trading day immediately preceding the April 15, 2019 maturity date, holders of the Convertible Notes have the right to convert their notes at any time, regardless of whether the sales price condition is met. Any conversions with respect to conversion notices received by the Company on or after October 15, 2018 will settle on the maturity date. As of December 31, 2018, the outstanding balance, net of

discount, of \$1.16 billion of the Convertible Notes is included in current liabilities and the difference between the face value and carrying value of \$8.1 million is included in temporary equity in the accompanying consolidated balance sheets.

In accounting for the settlement of the Convertible Notes, the Company allocated the fair value of the settlement consideration remitted to the noteholders between the liability and equity components. The portion of the settlement consideration allocated to the extinguishment of the liability component was based on the fair value of that component immediately before extinguishment. A loss was recognized in the consolidated statements of income for the difference between the consideration allocated to the liability component and the sum of the carrying amount of the liability component and any unamortized debt issuance costs. Additionally, upon settlement of the converted principal, the Company derecognized the

F- 39

---

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

related unamortized discount and issuance costs. The Company allocated the remaining settlement consideration to the reacquisition of the equity component and recognized this amount as a reduction of stockholders' equity.

The Company may not redeem the Convertible Notes prior to the maturity date and no "sinking fund" is provided for the Convertible Notes, which means that the Company is not required to periodically redeem or retire the Convertible Notes. Upon the occurrence of certain fundamental changes involving the Company, holders of the Convertible Notes may require the Company to repurchase for cash all or part of their Convertible Notes in principal amounts of \$1,000 or an integral multiple thereof at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

In accounting for the issuance of the Convertible Notes, the Company separated the Convertible Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the estimated fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the face value of the Convertible Notes as a whole. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense over the term of the Convertible Notes using the effective interest method with an effective interest rate of 3.0 percent per annum. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the transaction costs related to the Convertible Note issuance, the Company allocated the total amount incurred to the liability and equity components based on their relative values. Issuance costs attributable to the \$1.4 billion liability component are being amortized to expense over the term of the Convertible Notes, and issuance costs attributable to the equity component are included along with the equity component in stockholders' equity. Additionally, a deferred tax liability of \$8.2 million related to a portion of the equity component transaction costs which are deductible for tax purposes is included in Other liabilities in the accompanying consolidated balance sheets.

The Convertible Notes consist of the following (in thousands):

	December 31, 2018	December 31, 2017
Liability component		
Principal	\$ 1,164,497	\$ 1,437,483
Less: note discount and issuance costs	(9,052)	(51,159)
Net carrying amount	\$ 1,155,445	\$ 1,386,324
Equity component		
Temporary equity	\$ 8,110	\$ —
Additional paid-in-capital	127,374	162,869
Total (including temporary equity)	\$ 135,484	\$ 162,869

The following table includes total interest expense recognized related to the Convertible Notes and 2027 Notes (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Contractual interest expense	\$40,151	\$11,406	\$7,187
Amortization of debt issuance costs	4,663	4,050	3,863
Amortization of debt discount	34,228	34,039	33,014
	\$79,042	\$49,495	\$44,064

See Note 6 to the Company's consolidated financial statements for fair value disclosures related to the Company's Convertible Notes and 2027 Notes.



CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Convertible Note Hedge and Warrant Transactions

In connection with the pricing of the Convertible Notes, the Company entered into convertible note hedge transactions relating to approximately 16.0 million shares of common stock (the "Bond Hedges") and also entered into separate warrant transactions (the "Warrant Transactions") with each of the Option Counterparties relating to approximately 16.0 million shares of common stock. As a result of the spin-off of its GoTo Business, the number of shares of the Company's common stock covered by the Bond Hedges and Warrant Transactions was adjusted to approximately 20.0 million shares.

The Bond Hedges are generally expected to reduce the potential dilution upon conversion of the Convertible Notes and/or offset any payments in cash, shares of common stock or a combination of cash and shares of common stock, at the Company's election, that the Company is required to make in excess of the principal amount of the Convertible Notes upon conversion of any Convertible Notes, as the case may be, in the event that the market price per share of common stock, as measured under the terms of the Bond Hedges, is greater than the strike price of the Bond Hedges, which initially corresponds to the conversion price of the Convertible Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Convertible Notes. The Warrant Transactions will separately have a dilutive effect to the extent that the market value per share of common stock, as measured under the terms of the Warrant Transactions, exceeds the applicable strike price of the warrants issued pursuant to the Warrant Transactions (the "Warrants"). The strike price of the Warrants was adjusted to \$94.94 as a result of the cash dividend paid in December 2018. The Warrants will expire in ratable portions on a series of expiration dates commencing after the maturity of the Convertible Notes. The Bond Hedges and Warrants are not marked to market as the value of the Bond Hedges and Warrants were initially recorded in stockholders' equity and continue to be classified within stockholders' equity. As of December 31, 2018, no warrants have been exercised.

Aside from the initial payment of a premium to the Option Counterparties under the Bond Hedges, which amount is partially offset by the receipt of a premium under the Warrant Transactions, the Company is not required to make any cash payments to the Option Counterparties under the Bond Hedges and will not receive any proceeds if the Warrants are exercised.

## 14. DERIVATIVE FINANCIAL INSTRUMENTS

## Derivatives Designated as Hedging Instruments

As of December 31, 2018, the Company's derivative assets and liabilities primarily resulted from cash flow hedges related to its forecasted operating expenses transacted in local currencies. A substantial portion of the Company's overseas expenses are and will continue to be transacted in local currencies. To protect against fluctuations in operating expenses and the volatility of future cash flows caused by changes in currency exchange rates, the Company has established a program that uses foreign exchange forward contracts to hedge its exposure to these potential changes. The terms of these instruments, and the hedged transactions to which they relate, generally do not exceed twelve months.

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

The total cumulative unrealized loss on cash flow derivative instruments was \$1.0 million at December 31, 2018, and is included in Accumulated other comprehensive loss in the accompanying consolidated balance sheets. The total cumulative unrealized gain on cash flow derivative instruments was \$2.2 million at December 31, 2017, and is included in Accumulated other comprehensive loss in the accompanying consolidated balance sheets. See Note 16 for more information related to comprehensive income. The net unrealized loss as of December 31, 2018 is expected to be

recognized in income over the next 12 months at the same time the hedged items are recognized in income.

**Derivatives not Designated as Hedging Instruments**

A substantial portion of the Company's overseas assets and liabilities are and will continue to be denominated in local currencies. To protect against fluctuations in earnings caused by changes in currency exchange rates when remeasuring the Company's balance sheet, it utilizes foreign exchange forward contracts to hedge its exposure to this potential volatility.

F- 41

---

CITRIX SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

These contracts are not designated for hedge accounting treatment under the authoritative guidance. Accordingly, changes in the fair value of these contracts are recorded in Other (expense) income, net.

Fair Values of Derivative Instruments

Derivatives Designated as Hedging Instruments	Asset Derivatives (In thousands)				Liability Derivatives			
	December 31, 2018		December 31, 2017		December 31, 2018		December 31, 2017	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency forward contracts	Prepaid expenses and other current assets	\$708	Prepaid expenses and other current assets	\$2,481	Accrued expenses and other current liabilities	\$1,811	Accrued expenses and other current liabilities	\$110

Derivatives Not Designated as Hedging Instruments	Asset Derivatives (In thousands)				Liability Derivatives			
	December 31, 2018		December 31, 2017		December 31, 2018		December 31, 2017	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency forward contracts	Prepaid expenses and other current assets	\$56	Prepaid expenses and other current assets	\$17	Accrued expenses and other current liabilities	\$732	Accrued expenses and other current liabilities	\$704

The Effect of Derivative Instruments on Financial Performance

Derivatives in Cash Flow Hedging Relationships	For the Year ended December 31, (In thousands)			Location of (Loss) Gain Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)	Amount of (Loss) Gain Reclassified from Accumulated Other Comprehensive Loss (Effective Portion)	
	2018	2017			2018	2017
	Foreign currency forward contracts	\$(3,143)	\$5,288		Operating expenses	\$(699)

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

Derivatives Not Designated as Hedging Instruments	For the Year ended December 31, (In thousands)		Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
	2018	2017		2018	2017
	Foreign currency forward contracts	\$7,062		\$(6,804)	Other (expense) income, net





CITRIX SYSTEMS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Outstanding Foreign Currency Forward Contracts

As of December 31, 2018, the Company had the following net notional foreign currency forward contracts outstanding (in thousands):

Foreign Currency	Currency Denomination
Australian dollars	AUD 18,200
Brazilian Real	BRL 5,500
British pounds sterling	GBP 14,100
Canadian dollars	CAD 2,350
Chinese renminbi	CNY 41,800
Danish krone	DKK 6,329
Euro	EUR 9,736
Hong Kong dollars	HKD 20,600
Indian rupees	INR 62,000
Japanese yen	JPY 2,300,000
Korean Won	KRW 150,000
New Zealand Dollar	NZD 100
Singapore dollars	SGD 13,500
Swiss francs	CHF 19,450

15. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing income available to stockholders by the weighted-average number of common shares outstanding during each period. Diluted earnings per share is computed using the weighted-average number of common and dilutive common share equivalents outstanding during the period. Dilutive common share equivalents consist of shares issuable upon the exercise or settlement of stock awards and shares issuable under the employee stock purchase plan (calculated using the treasury stock method) during the period they were outstanding and potential dilutive common shares from the conversion spread on the Company's Convertible Notes and the Company's warrants.

CITRIX SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Year Ended December 31,		
	2018	2017	2016
Numerator:			
Income from continuing operations	\$575,667	\$21,985	\$469,855
(Loss) income from discontinued operations, net of income taxes	—	(42,704 )	66,257
Net income (loss)	\$575,667	\$(20,719)	\$536,112
Denominator:			
Denominator for basic earnings per share - weighted-average shares outstanding	136,030	150,779	155,134
Effect of dilutive employee stock awards	2,653	2,493	1,950
Effect of dilutive Convertible Notes	5,769	2,231	—
Effect of dilutive warrants	1,482	—	—
Denominator for diluted earnings per share - weighted-average shares outstanding	145,934	155,503	157,084
Basic earnings (loss) per share:			
Income from continuing operations	\$4.23	\$0.15	\$3.03
(Loss) income from discontinued operations, net of income taxes	—	(0.28 )	0.43
Basic net earnings (loss) per share	\$4.23	\$(0.13 )	\$3.46
Diluted earnings (loss) per share:			
Income from continuing operations	\$3.94	\$0.14	\$2.99
(Loss) income from discontinued operations, net of income taxes	—	(0.27 )	0.42
Diluted net earnings (loss) per share:	\$3.94	\$(0.13 )	\$3.41

For the year ended December 31, 2018, the weighted-average number of shares outstanding used in the computation of diluted earnings per share includes the dilutive effect of the Company's warrants, as the average stock price during the year was above the weighted-average warrant strike price of \$94.94 per share. For the years ended December 31, 2017 and 2016, the weighted-average number of shares outstanding used in the computation of diluted earnings per share does not include common stock issuable upon the exercise of the Company's warrants. The effects of these potentially issuable shares were not included in the calculation of diluted earnings per share because the effect would have been anti-dilutive. Anti-dilutive stock-based awards excluded from the calculations of diluted earnings per share were immaterial during the periods presented.

The Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on its 0.500% Convertible Notes due 2019 on diluted earnings per share, if applicable, because upon conversion the Company will pay cash up to the aggregate principal amount of the Convertible Notes to be converted and pay or deliver, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock, at the Company's election, in respect of the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the Convertible Notes being converted. The conversion spread will have a dilutive impact on diluted earnings per share when the average market price of the Company's common stock for a given period exceeds the conversion price of \$71.68 per share of common stock. For the years ended December 31, 2018 and 2017, the average market price of the Company's common stock exceeded the conversion price, therefore, the dilutive effect of the Convertible Notes was included in the denominator of diluted earnings per share. For the year ended December 31, 2016, the Convertible Notes have been excluded from the computation of diluted earnings per share as the effect would be anti-dilutive since the conversion price of the Convertible Notes exceeded the average market price of the Company's common stock. See Note 13 to the Company's consolidated financial statements for detailed information on the Convertible Notes offering.



## CITRIX SYSTEMS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16. COMPREHENSIVE INCOME

The changes in Accumulated other comprehensive loss by component, net of tax, are as follows:

	Foreign currency	Unrealized loss on available-for-sale securities	Unrealized gain (loss) on derivative instruments	Other comprehensive loss on pension liability	Total
	(In thousands)				
Balance at December 31, 2017	\$(2,946)	\$ (6,666 )	\$ 2,158	\$ (3,352 )	\$(10,806)
Other comprehensive (loss) income before reclassifications	—	(1,770 )	(3,842 )	1,569	(4,043 )
Amounts reclassified from accumulated other comprehensive loss	—	5,996	699	—	6,695
Net current period other comprehensive income (loss)	—	4,226	(3,143 )	1,569	2,652
Balance at December 31, 2018	\$(2,946)	\$ (2,440 )	\$ (985 )	\$ (1,783 )	\$(8,154 )

Income tax expense or benefit allocated to each component of other comprehensive income (loss) is not material.

Reclassifications out of Accumulated other comprehensive loss are as follows:

	For the Year Ended December 31, 2018 (In thousands)	
	Amount reclassified from Accumulated other comprehensive loss, net of tax	Affected line item in the Consolidated Statements of Income comprehensive
Details about accumulated other comprehensive loss components		
Unrealized net loss on available-for-sale securities	\$5,996	Other income (expense), net
Unrealized net loss on cash flow hedges	699	Operating expenses *
	\$6,695	

\* Operating expenses amounts allocated to Research and development, Sales, marketing and services, and General and administrative are not individually significant.

## 17. RESTRUCTURING

The Company has implemented multiple restructuring plans to reduce its cost structure, align resources with its product strategy and improve efficiency, which has resulted in workforce reductions and the consolidation of certain leased facilities.

For the years ended December 31, 2018, 2017 and 2016, restructuring charges from continuing operations were comprised of the following (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Employee severance and related costs	\$2,507	\$62,844	\$41,054
Consolidation of leased facilities	14,218	9,718	28,857
Reversal of previous charges	—	(187 )	(2,510 )
Total Restructuring charges	\$16,725	\$72,375	\$67,401

During the years ended December 31, 2018 and 2017, the Company incurred costs of \$2.5 million and \$53.7 million, respectively, related to initiatives intended to accelerate the transformation to a cloud-based subscription business, increase strategic focus, and improve operational efficiency. No costs were incurred during the year ended

December 31, 2016. The majority of the activities related to this program were substantially completed by the end of 2018.

In connection with its restructuring initiatives, the Company had previously vacated or consolidated properties and subsequently reassessed its obligations on non-cancelable leases. The fair value estimate of these non-cancelable leases is based on the contractual lease costs over the remaining term, partially offset by estimated future sublease rental income. During the year ended December 31, 2018, the Company incurred costs of \$14.2 million related to the consolidation of leased facilities. During

F- 45

---

## CITRIX SYSTEMS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the year ended December 31, 2017, the Company incurred costs of \$8.1 million related to operational initiatives designed to improve infrastructure scalability and cost saving efficiencies. The charges primarily related to employee severance. No costs were incurred during the year ended December 31, 2016. The charges related to employee severance were substantially completed as of the first quarter of 2018; however, the Company could continue to incur lease losses related to the consolidation of leased facilities during fiscal year 2019.

During the years ended December 31, 2017 and 2016, the Company incurred costs of \$1.9 million and \$44.5 million, respectively, primarily related to its announced plan in November 2015 to simplify the Company's enterprise go-to-market motion and roles while improving coverage, reflect changes in the Company's product focus, and balance resources with demand across the Company's marketing, general and administration areas. The charges are primarily related to employee severance, outplacement, professional service fees, and facility closing costs. The majority of the activities related to this program were substantially completed as of the end of the first quarter of 2016.

During the years ended December 31, 2017 and 2016, the Company recorded charges of \$8.7 million and \$24.0 million, respectively, related to its announced plan in January 2015 to increase strategic focus and operational efficiency. The charges primarily related to the severance and other costs directly related to the reduction of the Company's workforce and consolidation of leased facilities. The majority of the activities related to this program were substantially completed by the end of 2015.

## Restructuring accruals

The activity in the Company's restructuring accruals for the year ended December 31, 2018 is summarized as follows (in thousands):

	Total
Balance at January 1, 2018	\$55,283
Restructuring charges	16,725
Payments	(26,913 )
Balance at December 31, 2018	\$45,095

As of December 31, 2018, the \$45.1 million in outstanding restructuring accruals primarily relate to future payments for leased facilities.

CITRIX SYSTEMS, INC.  
SUPPLEMENTAL FINANCIAL INFORMATION  
QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(In thousands, except per share amounts)				
2018					
Net revenues	\$697,192	\$742,365	\$732,476	\$801,870	\$2,973,903
Gross margin	588,906	633,616	628,559	689,019	2,540,100
Income from operations	165,563	145,147	164,779	202,471	677,960
Net income	144,259	106,833	158,857	165,718	575,667
Earnings per share - basic	1.04	0.79	1.18	1.24	4.23
Earnings per share - diluted	0.99	0.73	1.08	1.15	3.94
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(In thousands, except per share amounts)				
2017					
Net revenues	\$662,677	\$693,227	\$690,925	\$777,857	\$2,824,686
Gross margin	560,219	583,915	584,988	655,918	2,385,040
Income from continuing operations	70,325	108,829	126,720	(283,889 )	21,985
Loss from discontinued operations, net of tax	(42,704 )	—	—	—	(42,704 )
Net income	27,621	108,829	126,720	(283,889 )	(20,719 )
Basic earnings per share:					
Income (loss) from continuing operations	0.46	0.72	0.84	(1.93 )	0.15
Loss from discontinued operations	(0.28 )	—	—	—	(0.28 )
Basic earnings (loss) per share	0.18	0.72	0.84	(1.93 )	(0.13 )
Diluted earnings per share:					
Income (loss) from continuing operations	0.44	0.70	0.82	(1.93 )	0.14
Loss from discontinued operations	(0.27 )	—	—	—	(0.27 )
Diluted earnings (loss) per share	0.17	0.70	0.82	(1.93 )	(0.13 )

The sum of the quarterly net income per share amounts may differ from the annual earnings per share amount due to the weighting of common and common equivalent shares outstanding during each of the respective periods.



## CITRIX SYSTEMS, INC.

## SCHEDULE II

## VALUATION AND QUALIFYING ACCOUNTS

	Beginning of Period (In thousands)	Charged to Expense	Charged to Other Accounts		Deductions	Balance at End of Period
2018						
Deducted from asset accounts:						
Allowance for doubtful accounts	\$3,420	\$ 3,586	\$ 457	(3)	\$ 3,829	(2) \$ 3,634
Allowance for returns	1,225	—	1,561	(1)	1,890	(4) 896
Valuation allowance for deferred tax assets	76,789	—	8,611	(5)	—	85,400
2017						
Deducted from asset accounts:						
Allowance for doubtful accounts	\$3,889	\$ 3,917	\$ 9	(3)	\$ 4,395	(2) \$ 3,420
Allowance for returns	1,994	—	4,890	(1)	5,659	(4) 1,225
Valuation allowance for deferred tax assets	14,156	—	62,633	(5)	—	76,789
2016						
Deducted from asset accounts:						
Allowance for doubtful accounts	\$6,241	\$ 954	\$ —		\$ 3,306	(2) \$ 3,889
Allowance for returns	1,438	—	2,088	(1)	1,532	(4) 1,994
Valuation allowance for deferred tax assets	16,673	—	(2,517 )	(5)	—	14,156

(1) Charged against revenues.

(2) Uncollectible accounts written off, net of recoveries.

(3) Adjustments from acquisitions.

(4) Credits issued for returns.

(5) Related to deferred tax assets on foreign tax credits, net operating loss carryforwards, and depreciation.