

CITRIX SYSTEMS INC  
Form 10-Q  
August 03, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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 33309  
Fort Lauderdale, Florida  
(Address of principal executive offices) (Zip Code)  
Registrant's Telephone Number, Including Area Code:  
(954) 267-3000

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

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

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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 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.

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

As of July 27, 2018, there were 135,658,446 shares of the registrant's Common Stock, \$.001 par value per share, outstanding.

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CITRIX SYSTEMS, INC.  
Form 10-Q  
For the Quarterly Period Ended June 30, 2018  
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## PART I: FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
CITRIX SYSTEMS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2018	December 31, 2017
	(Unaudited)	(Derived from audited financial statements)
	(In thousands, except par value)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,021,708	\$ 1,115,130
Short-term investments, available-for-sale	487,367	632,516
Accounts receivable, net of allowances of \$3,737 and \$4,645 at June 30, 2018 and December 31, 2017, respectively	528,386	712,535
Inventories, net	20,282	13,912
Prepaid expenses and other current assets	208,648	147,330
Total current assets	2,266,391	2,621,423
Long-term investments, available-for-sale	825,444	984,328
Property and equipment, net	246,025	252,932
Goodwill	1,662,438	1,614,494
Other intangible assets, net	141,989	141,952
Deferred tax assets, net	119,760	152,362
Other assets	104,015	52,685
Total assets	\$ 5,366,062	\$ 5,820,176
Liabilities, Temporary Equity and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 86,533	\$ 66,893
Accrued expenses and other current liabilities	277,275	277,679
Income taxes payable	1,261	34,033
Current portion of convertible notes	1,406,157	—
Current portion of deferred revenues	1,243,032	1,308,474
Total current liabilities	3,014,258	1,687,079
Long-term portion of deferred revenues	480,942	555,769
Long-term debt	741,277	2,127,474
Long-term income taxes payable	321,651	335,457
Other liabilities	143,677	121,936
Commitments and contingencies		
Temporary equity from convertible notes	28,081	—
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; 307,662 and 305,751 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	308	306
Additional paid-in capital	5,116,339	4,883,670
Retained earnings	3,893,354	3,509,484
Accumulated other comprehensive loss	(18,718	) (10,806 )

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	8,991,283	8,382,654
Less - common stock in treasury, at cost (172,244 and 162,044 shares at June 30, 2018 and December 31, 2017, respectively)	(8,355,107 )	(7,390,193 )
Total stockholders' equity	636,176	992,461
Total liabilities, temporary equity and stockholders' equity	\$ 5,366,062	\$ 5,820,176
See accompanying notes.		

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CITRIX SYSTEMS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands, except per share information)			
Revenues:				
Subscription	\$ 110,796	\$ 74,596	\$ 213,954	\$ 143,686
Product and license	192,058	190,376	352,755	361,275
Support and services	439,511	428,255	872,848	850,943
Total net revenues	742,365	693,227	1,439,557	1,355,904
Cost of net revenues:				
Cost of subscription, support and services	67,523	64,167	130,908	123,826
Cost of product and license revenues	29,707	32,735	63,579	62,446
Amortization of product related intangible assets	11,519	12,410	22,548	25,498
Total cost of net revenues	108,749	109,312	217,035	211,770
Gross margin	633,616	583,915	1,222,522	1,144,134
Operating expenses:				
Research and development	112,943	106,696	211,493	209,365
Sales, marketing and services	286,730	268,300	537,943	515,065
General and administrative	77,340	81,146	141,067	157,655
Amortization of other intangible assets	4,019	3,692	7,685	7,338
Restructuring	7,437	2,140	13,624	10,126
Total operating expenses	488,469	461,974	911,812	899,549
Income from operations	145,147	121,941	310,710	244,585
Interest income	9,402	5,560	18,133	11,172
Interest expense	(20,542 )	(12,007 )	(40,878 )	(23,560 )
Other (expense) income, net	(2,537 )	(1,141 )	(5,549 )	2,185
Income from continuing operations before income taxes	131,470	114,353	282,416	234,382
Income tax expense	24,637	5,524	31,324	55,228
Income from continuing operations	106,833	108,829	251,092	179,154
(Loss) from discontinued operations, net of income taxes	—	—	—	(42,704 )
Net income	\$ 106,833	\$ 108,829	\$ 251,092	\$ 136,450
Basic earnings (loss) per share:				
Income from continuing operations	\$0.79	\$0.72	\$1.82	\$1.18
(Loss) from discontinued operations	—	—	—	(0.28 )
Basic net earnings per share	\$0.79	\$0.72	\$1.82	\$0.90
Diluted earnings (loss) per share:				
Income from continuing operations	\$0.73	\$0.70	\$1.72	\$1.14
(Loss) from discontinued operations	—	—	—	(0.27 )
Diluted net earnings per share:	\$0.73	\$0.70	\$1.72	\$0.87
Weighted average shares outstanding:				
Basic	135,993	151,212	137,614	152,247
Diluted	145,447	156,036	145,709	157,239

See accompanying notes.

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CITRIX SYSTEMS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Net income	\$106,833	\$108,829	\$251,092	\$136,450
Other comprehensive income:				
Available for sale securities:				
Change in net unrealized gains (losses)	332	350	(4,210)	) 1,440
Less: reclassification adjustment for net losses (gains) included in net income	243	(85)	) 1,244	(460)
Net change (net of tax effect)	575	265	(2,966)	) 980
Loss on pension liability	—	—	—	(9)
Cash flow hedges:				
Change in unrealized (losses) gains	(3,422)	) 1,884	(2,730)	) 3,876
Less: reclassification adjustment for net (gains) losses included in net income	(997)	) 6	(2,216)	) 1,678
Net change (net of tax effect)	(4,419)	) 1,890	(4,946)	) 5,554
Other comprehensive (loss) income	(3,844)	) 2,155	(7,912)	) 6,525
Comprehensive income	\$102,989	\$110,984	\$243,180	\$142,975

See accompanying notes.



CITRIX SYSTEMS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six Months Ended June 30,	
	2018	2017
	(In thousands)	
Operating Activities		
Net income	\$251,092	\$136,450
Loss from discontinued operations	—	42,704
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other	106,266	97,403
Stock-based compensation expense	91,567	75,487
Deferred income tax expense	5,756	56,584
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	6,021	(6,049 )
Other non-cash items	5,166	7,812
Total adjustments to reconcile net income to net cash provided by operating activities	214,776	231,237
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	182,469	140,471
Inventories	(6,645 )	(1,398 )
Prepaid expenses and other current assets	(38,080 )	(5,957 )
Other assets	1,795	(9,597 )
Income taxes, net	(72,405 )	(73,567 )
Accounts payable	19,851	(9,272 )
Accrued expenses and other current liabilities	10,435	(20,536 )
Deferred revenues	(41,100 )	26,084
Other liabilities	5,850	(790 )
Total changes in operating assets and liabilities, net of the effects of acquisitions	62,170	45,438
Net cash provided by operating activities of continuing operations	528,038	455,829
Net cash used in operating activities of discontinued operations	—	(56,070 )
Net cash provided by operating activities	528,038	399,759
Investing Activities		
Purchases of available-for-sale investments	(332,136 )	(590,004 )
Proceeds from sales of available-for-sale investments	434,901	562,098
Proceeds from maturities of available-for-sale investments	196,791	179,330
Purchases of property and equipment	(32,929 )	(38,650 )
Cash paid for acquisitions, net of cash acquired	(65,983 )	(60,449 )
Cash paid for licensing agreements and technology	(1,217 )	(5,155 )
Other	3,002	987
Net cash provided by investing activities of continuing operations	202,429	48,157
Net cash used in investing activities of discontinued operations	—	(3,891 )
Net cash provided by investing activities	202,429	44,266
Financing Activities		
Proceeds from issuance of common stock under stock-based compensation plans	113	1,490
Proceeds from credit facility	—	125,000
Repayment of credit facility	—	(95,000 )
Repayment of acquired debt	(5,674 )	(4,000 )
Stock repurchases, net	(764,978 )	(500,000 )

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Cash paid for tax withholding on vested stock awards	(49,936 )	(60,547 )
Transfer of cash to GoTo Business resulting from the separation	—	(28,523 )
Net cash used in financing activities	(820,475 )	(561,580 )
Effect of exchange rate changes on cash and cash equivalents	(3,414 )	5,370
Change in cash and cash equivalents	(93,422 )	(112,185 )
Cash and cash equivalents at beginning of period, including cash of discontinued operations of \$0 and \$120,861, respectively	1,115,130	956,956
Cash and cash equivalents at end of period	\$1,021,708	\$844,771
See accompanying notes.		

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CITRIX SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Citrix Systems, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. All adjustments, which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown, are of a normal recurring nature and have been reflected in the condensed consolidated financial statements and accompanying notes. The results of operations for the periods presented are not necessarily indicative of the results expected for the full year or for any future period partially because of the seasonality of the Company's business. Historically, the Company's revenue for the fourth quarter of any year is typically higher than the revenue for the first quarter of the subsequent year. The information included in these condensed consolidated financial statements should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this report and the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The condensed consolidated financial statements of the Company include the accounts of its wholly-owned subsidiaries in the Americas; Europe, the Middle East and Africa ("EMEA"); and Asia-Pacific and Japan ("APJ"). All significant transactions and balances between the Company and its subsidiaries have been eliminated in consolidation. In these condensed 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 of its GoTo family of service offerings (the "GoTo Business") in January 2017.

The Company's revenues are derived from sales of its Workspace Services solutions, Networking products, Content Collaboration offerings and related Support and services. The Company operates under one reportable segment. See Note 10 for more information on the Company's segment.

2. SIGNIFICANT ACCOUNTING POLICIES

During the first quarter of 2018, the Company adopted new accounting guidance related to revenue recognition, accounting for business combinations, income taxes and investments, each of which is described below. There have been no other significant changes in the Company's accounting policies during the three and six months ended June 30, 2018 as compared to the significant accounting policies described in its Annual Report on Form 10-K for the year ended December 31, 2017.

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.

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

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Three Months Ended June 30, 2018

	As Reported	Balances without adoption of ASC 606	Effect of Change Higher/(Lower)
(in thousands, except per share amounts)			
Total net revenues	\$742,365	\$741,920	\$ 445
Total cost of net revenues	108,749	107,807	942
Gross profit	633,616	634,113	(497 )
Total operating expenses	488,469	499,047	(10,578 )
Income from operations	145,147	135,066	10,081
Net income	\$106,833	\$99,295	\$ 7,538

Basic earnings per share	\$0.79	\$0.73	\$ 0.06
Diluted earnings per share	\$0.73	\$0.68	\$ 0.05

Six Months Ended June 30, 2018

As Reported	Balances without adoption of ASC 606	Effect of Change Higher
(in thousands, except per share amounts)		
Total net revenues	\$1,439,557	\$1,449,244 \$(9,687)
Total cost of net revenues	217,035	215,933 1,102
Gross profit	1,222,522	1,233,311 (10,789)
Total operating expenses	911,812	925,731 (13,919)
Income from operations	310,710	307,580 3,130

Net income

- Our Current Reports on Form 8-K filed on January 11, 2005, February 22, 2005, March 1, 2005, May 5, 2005, May 10, 2005, May 11, 2005, May 27, 2005, June 10, 2005, June 30, 2005, August 12, 2005, August 23, 2005, September 1, 2005, September 21, 2005, September 22, 2005, September 27, 2005, October 4, 2005, October 27, 2005, November 15, 2005 and December 8, 2005; and

- All documents filed by us under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or after the date of this prospectus and before the termination of this offering.

Table of Contents

You can request a copy of these filings at no cost, by writing or calling us at the following address:

Nalco Holding Company  
1601 West Diehl Road  
Naperville, IL 60563  
(630) 305-1000  
Attention: Corporate Secretary

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18,126,192 Shares

Nalco Holding Company

Common Stock

Citigroup

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