CITRIX SYSTEMS INC
Form 10-K
February 16, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
or
o 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 incorporation or organization)	(IRS Employer 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 x 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 x
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 x No o
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). x Yes o 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. x

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

x Large accelerated filer o Accelerated filer

o Non-accelerated filer o Smaller reporting company

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

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 $12,491,715,548. As of February 10, 2017 there were 156,352,410 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, 2016. 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

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 13.

ITEM 1. BUSINESS

Business Overview

Citrix is a Delaware corporation founded on April 17, 1989. We deliver solutions to make applications and data secure and easy to access, anywhere, anytime and on any device or network.

The world is in a new era where physical and digital worlds are converging, and where everything is connected. The pace of change is exponential and the possibilities for improving how we work and live are limitless.

Digital transformation is occurring in every industry and is being fueled by unprecedented adoption and convergence of mobile, cloud, big data analytics and the Internet of Things (IoT). At the same time, organizations are struggling with technological complexity, heterogeneity and information overload.

Businesses have spent years building unique operating models, investing in countless systems, platforms, and devices and then deeply customizing it all. Yet these legacy systems are making it difficult to adopt new innovations, devices and platforms needed to move forward. It is also creating new challenges for IT departments that must manage and secure it all. Further, an increasing number of workloads are becoming mobile.

Finally, concerns about security are top of mind for every organization today. And the pressures of the multitude of devices, endpoints and networks are straining the limits of existing infrastructures and calling into question traditional device- or network-centric security approaches, which cannot keep pace with the new devices, application platforms and networks being introduced.

Our mission is to power a world where people, organizations and things are securely connected and accessible. We aim to accomplish this by building the world's best integrated technology services for secure delivery of apps and data anytime, anywhere.

We market and license our products directly to customers, over the Web, and through independent software vendors, or ISVs, in addition to indirectly through systems integrators, or SIs, value-added resellers, or VARs, value-added distributors, or VADs, original equipment manufacturers, or OEMs and service providers.

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, to 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 (RMT) transaction. The GoTo family of service offerings consists of GoToMeeting, GoToWebinar, GoToTraining, GoToMyPC, GoToAssist, Grasshopper and OpenVoice, or the GoTo Business, and had historically been part of our GoTo Business segment (formerly the Mobility Apps segment). As a result, in 2017, we will report the GoTo Business as discontinued operations.

Products and Services

We are enabling the future of work by delivering the industry's most comprehensive and integrated platform for secure app and data delivery and network functionality as a cloud-based service through technology leadership in application virtualization, VDI, mobility, networking and cloud. Our products and services target customers of all sizes, from small businesses to large global enterprises. Through three functional centers of excellence we administer the research and development, marketing and product management for our offerings.

Workspace Services

Application Virtualization and VDI

Our Application Virtualization and 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.

- XenDesktop is a fully-integrated, cloud-enabled desktop virtualization solution that gives customers the flexibility to deliver desktops and applications as a service - from any cloud, on-premises datacenters or both. XenDesktop includes 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. XenDesktop 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. In XenDesktop Enterprise and Platinum editions, customers also receive the industry-leading Citrix XenApp to manage and mobilize Windows applications.
- XenApp is a widely deployed solution that allows Windows applications to be delivered as cloud services to Android and iOS mobile devices, Macs, PCs and thin clients. XenApp enables people to work better by running applications in the security of the data center, or cloud, and using HDX technologies to deliver a superior user experience to any device, anywhere. XenApp optimizes the application experience for smartphones, tablets and touchscreen laptops, providing intuitive touch capabilities for the latest generation of devices. Keeping applications under the centralized control of IT administrators enhances data security and reduces the costs of managing applications on every PC. XenApp runs on all current versions of Microsoft Windows Server and tightly integrates with the Microsoft Desktop Optimization Pack, Microsoft App-V, and Microsoft System Center. Our joint solution lowers the cost of delivering and maintaining Windows applications for all users in the enterprise. The capabilities of XenApp are available standalone as well as integrated within XenDesktop Enterprise and Platinum editions.

Enterprise Mobility Management

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

- XenMobile includes mobile device management (MDM), mobile application management (MAM), mobile content management (MCM), unified endpoint management (UEM), mobile productivity apps and end-to-end security. These capabilities allow IT to meet mobile device security and compliance requirements for "bring your own device" programs and corporate devices while enabling user productivity. In addition, XenMobile helps IT securely deliver business applications, including native mobile, Web, SaaS and virtual apps (through XenApp and XenDesktop integration) to mobile users on nearly any device. XenMobile also provides strong security with an additional layer of application encryption and network protection with Citrix NetScaler Gateway integration.

Citrix Workspace Suite

We offer customers the opportunity to acquire our mobility, desktop and app products through a single comprehensive integrated product offering - Citrix Workspace Suite, which includes our XenApp, XenDesktop, XenMobile, ShareFile and NetScaler SD-WAN products. Citrix Workspace Suite securely delivers the apps, desktops, branch networking and WAN, enterprise mobility management and data people need for business productivity. We offer the industry’s most complete and integrated digital workspace that’s streamlined for IT control and easily accessible for users.

- Citrix Workspace Suite delivers the user experience for any app or desktop using a universal client, Citrix Receiver, which is available on 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 Suite provides a single, flexible solution that can streamline application and desktop deployment and lifecycle management to reduce IT costs, and offers choice of device, cloud and network, and can be deployed on-premises, via Citrix Cloud or as a hosted service.

Delivery Networking

Our Delivery Networking products allow organizations to deliver apps and data with the security, reliability, and speed trusted by thousands of customers worldwide.

- NetScaler ADC is a software-defined application delivery controller (ADC) and load balancer designed to improve application performance and reliability for mobile, remote and branch users; allow customers to transition their infrastructure to an app-driven, software-defined network; eliminate multiple remote access solutions for improved security; and consolidate data centers for greater efficiency. Additionally, we extend the platform with best-of-breed web application firewall (WAF) capabilities that protects web applications and sites from both known and unknown attacks, including application-layer and zero-day threats.

- NetScaler SD-WAN increases the security, performance and reliability of traditional enterprise applications, SaaS applications and virtual desktops for remote users. It is an integrated platform that can help customers effectively and economically increase WAN throughput while accelerating enterprise applications and ensuring the performance and availability of mission critical applications through a hybrid WAN architecture.

Cloud Services

Citrix cloud-based 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, contributing to lower administration cost and complexity.

- ShareFile is a secure, cloud-based file sharing and storage solution built for business, giving users enterprise-class data services across all corporate and personal mobile devices, while maintaining total IT control. ShareFile delivers the data fabric of our integrated platform for secure app, data and network delivery through Citrix Cloud. ShareFile 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 ShareFile ensure that data remains in control of the company. With ShareFile 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. Additionally, ShareFile supports e-signature, feedback and approval workflows that help businesses adopt the mobile, digital office.
- Citrix Cloud delivers our XenApp, XenDesktop, XenMobile, ShareFile and NetScaler Gateway services virtually through the cloud so customers can easily and rapidly configure and deliver workspaces to meet the needs of given functions, roles or vertical segments; flexibly integrate apps and data across any cloud, platform or device; set and monitor access, security and data sovereignty rules across their entire infrastructure; and monitor and manage all corporate apps, data and networks through a unified control console. This cloud-based approach means reduced infrastructure, centralized control and SaaS-style updates, contributing to lower administration cost and complexity.

GoTo Business

The GoTo Business was composed of the Communications Cloud and Workflow Cloud products that allow organizations to enable mobile workstyles and offer employees the ability to move seamlessly across a diverse mix of devices and collaborate and share information.

Communications Cloud

- GoToMeeting was our easy-to-use, secure and cost-effective product for online meetings, sales demonstrations and collaborative gatherings and comes equipped with integrated conference dial-in numbers, Voice over Internet Protocol, or VoIP and HDFaces high-definition video conferencing.
- GoToWebinar was our easy-to-use, do-it-yourself, full-featured webinar product, allowing organizations to increase market reach and effectively present online to geographically dispersed audiences.
- GoToTraining was our easy-to-use and secure online training product that enables individuals and enterprises to provide interactive training sessions to customers and employees in any location.
- OpenVoice was our reservation-less audio conferencing service, providing robust web-based account tools that allows user provisioning and audio meeting controls for users to manage small and large audio conferences without operator assistance.
- Grasshopper was our provider of cloud-based telephony solutions for small businesses that allows organizations to establish professional voice presence (e.g., interactive voice response (IVR), routing, voicemail) without costly hardware investments and enables employees to use their personal devices to make and receive calls from their business line via a mobile app.

Workflow Cloud

- GoToMyPC was our online service that enables mobile workstyles by providing secure, remote access to a PC or Mac from virtually any Internet-connected computer, as well as from supported iOS or Android mobile devices.

5

- GoToAssist was our easy-to-use cloud-based IT support solutions for IT managers, consultants and managed service providers to deliver maximum uptime for people and their computers, mobile devices and apps.

License Updates and Maintenance

We provide several ways for customers to receive upgrades, support and maintenance for products.

- Software Maintenance combines 24x7x365 unlimited worldwide support with product version upgrades when available. The first year of Software Maintenance is required with certain corresponding product purchases. In October 2016, we announced the launch of Customer Success Services, which will replace Software Maintenance and provide a higher standard of service that empowers customer success whether in the cloud, on-premises or a hybrid approach through additional services providing expert guidance, proactive monitoring and enablement. In connection with this launch, beginning in 2017, our customers began migrating from the Subscription Advantage and Software Maintenance programs to this new offering. Customer Success Services 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.
- Subscription Advantage provides customers access to the latest product version updates when made available during their membership term. These updates include major changes to the product architecture and updates to the feature set of a product. Citrix software products eligible for participating in the Subscription Advantage program come with the first year of Subscription Advantage embedded into the cost of the product.
- Technical Support Services are specifically designed to address the variety of challenges facing our customers' IT environments. We offer several support-level options, global coverage and personalized relationship management. In most cases, we provide technical advice to distributors, resellers, service providers and entities with which we have a technology relationship, who act as the first line of technical assistance for end-users.
- Hardware Maintenance provides technical support from Citrix experts to diagnose and resolve issues encountered with appliances. It also offers the latest software upgrades and replacement of malfunctioning appliances to minimize organizational downtime. Additionally, dedicated account management is available as an add-on to the program for an even higher level of service.

Professional Services

We provide a portfolio of professional services to our business partners and customers to 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 helps guide the successful implementation of Citrix technologies and solutions through the use of 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 scope and complexity, requiring consultants who are qualified with project methodology and Citrix product expertise. Citrix Consulting is also responsible for the development of best practice knowledge that is disseminated to businesses with which we have a business relationship 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. Citrix Consulting has worked with Fortune Global 500 companies, technology providers, and government organizations to deliver solutions that achieve their unique technical and business objectives.
- Product Training & Certification helps enable our customers and partners to be successful with Citrix and achieve their business objectives faster. Authorized Citrix training is available when and how it is needed. Traditional or virtual instructor-led training offerings feature Citrix Certified Instructors delivering training in a classroom or remote setting at one of our Citrix Authorized Learning Centers, or CALCs, worldwide. CALCs are staffed with instructors that have been certified by us and teach their students using Citrix-developed courseware. Self-Paced Online offerings, available to students 24 hours a day, seven days a week, 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.

6

Technology

Our products are based on a full range of core proprietary technologies and certain industry-standard open source technologies.

- Citrix HDX Technologies is a family of innovations that optimize the end-to-end user experience in virtual desktop and virtual application environments. These technologies incorporate our ICA protocol, which consists of server- and client-side technology that allows graphical user interfaces to be transmitted securely over any network, and includes optimizations for multimedia, unified communications, high-end graphics and mobile networks which work together to provide a high-definition user experience across a wide array of applications, devices and networks.
- NetScaler nCore Technology is an architecture that enables execution of multiple packet engines in parallel. nCore technology allows the distribution of packet flows across multiple central processing unit cores to achieve efficient, high-performance parallel processing across multiple packet engines. The architecture incorporates innovations in flow distribution and state sharing and provides for efficient execution across packet engines.
- XenMobile is our foundational technology that delivers a holistic mobile computing platform for enterprises. Its main components include MDM, MAM, MCM, UEM, end-to-end security and a set of mobile productivity apps including secure email, corporate app store, Web browsing, data sharing, secure note taking and document editing on a host of mobile platforms including iOS, Android and Windows mobile.
- GoTo Business Technologies included our Internet Overlay Platform, our PSTN/VoIP Bridge and HDFaces that provides screen-sharing technology, seamless integration of Public Switched Telephone Network/Voice over Internet Protocol, or PSTN/VoIP, in products that use our audio conferencing and high-definition video conferencing over the public Internet, respectively. The GoTo Business technologies are part of the separation of the GoTo Business subject to limited licenses for certain continued use.

Innovation is a core Citrix competency. We have many additional unique innovations that are important enablers of our continued leadership in application virtualization, VDI and networking.

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 Exchange 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.
- Individuals and prosumers, who are responsible for choosing personal solutions and helping small businesses select simple-to-use computing solutions.
- Small business owners who are responsible for choosing the systems needed to support their business goals, such as SaaS.
- Line of business and functional executives that determine the need for the GoTo Business offerings at certain enterprises.
- Chief technology officer and engineering department (managers, architects, etc.) for telecommunications service providers.
- Chief information officer and engineering departments within service providers, using our products to deliver desktops and applications as hosted cloud services.

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

We offer perpetual and term-based software licenses for our products, along with annual subscriptions for software updates, technical support and SaaS. Perpetual licenses allow our customers to use the version of software initially purchased into perpetuity, while term-based licenses are limited to a specified period of time. Software update 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 products come primarily in electronic-based forms and, in selected markets. We also offer subscription licenses to service providers through the Citrix Service Provider program, which are invoiced on a monthly basis or based on reported license usage. Our Cloud Services and GoTo Business products 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.

Technology Relationships

We have a number of technology relationships in place to accelerate the development of existing and future products 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 over 25 years, Citrix and Microsoft have maintained a very strategic partnership spanning product development, go-to-market initiatives and partner development, with the goal of helping customers to enable secure delivery of applications and data on any device, wherever they go. Over the past year, the two companies have expanded that collaboration to help our joint customers make the transition from delivering apps and desktops from an on-premises IT infrastructure approach to a hybrid and cloud IT infrastructure model. Citrix and Microsoft are offering services that enable customers to deploy Windows 10 desktops on the Microsoft Azure cloud platform, services to deploy apps directly on Azure, and smart tools to simplify the deployment of new workspaces. In addition, the partnership is extending to Citrix mobility and network management products and services that complement Microsoft Enterprise Mobility + Security (EMS) and provide comprehensive security and value for Citrix and Microsoft customers. This next-generation model encompasses not just the Microsoft platform but extends to enable customers to leverage other platforms to deliver the best experiences through Microsoft and Citrix technologies.

Hewlett Packard Enterprise (HPE)

Citrix and HPE have a 20-year alliance that has been marked by innovation in response to changes that occur across industries and organizations, often fueled by dynamic technology trends. Through the Citrix and HPE alliance we are extending our leadership in the secure delivery of apps and data by building innovative solutions and services that leverage the full Citrix software stack and Citrix Cloud. The most recent example is the HPE Edgeline EL4000 Intelligent Edge Workspace, a solution that combines Atlantis USX software-defined storage with Citrix XenApp and XenDesktop Service.

Google

Together, Google and Citrix offer today’s enterprise a new approach to end user computing. The two companies continue working to optimize Citrix Receiver for Chrome to enable organizations to easily provision, centrally manage and deliver enterprise apps and data with high security over any network on any Chrome OS device. Our mobility technology collaboration ensures that XenMobile offers complete enterprise mobility management support for Android in the enterprise. Google and Citrix have extended our technical collaboration to encompass workflow and connectors that enable enterprise cloud computing, including ShareFile support for Google G-Suite and Drive, in addition to Citrix Cloud services running in the Google Cloud Platform. NetScaler CPX development is utilizing Kubernetes to lead the move to container based software defined networking.

Additional Relationships

Our partners continue to expand their focus on the broad range of Citrix products. Some examples include IBM and Fujitsu which have multiple offerings in the market with our Workspace Services solutions and Delivery Networking products. We also have established relationships with Intel, SAP, Samsung, and NVIDIA that complement the benefits provided by Citrix products. Citrix and Nutanix have a joint secure and scalable hyper-converged infrastructure solution that delivers a strong user experience and value while reducing infrastructure complexity and an industry-leading VDI solution.

Through our Citrix Ready program, more than 30,000 products have been verified to work with Citrix technologies. The program is trusted by customers, providing them choice and confidence when identifying Citrix verified partner products critical to their solution deployment. In addition, numerous partners proactively incorporate Citrix products and technologies such as Receiver, XenDesktop, XenApp, NetScaler ADC, and HDX (ICA) technologies into their customer offerings. Our HDX and Receiver technologies are often included with or offered for thin clients, industry-standard servers and mobile devices, such as Apple's iPhone and iPad, Windows Mobile and Google Android devices. Licensees include Dell, Samsung, Fujitsu and HPE, among others.

Research and Development

We focus our research and development efforts on developing new products and core technologies in our core markets and to further enhancing the functionality, reliability, performance and flexibility of existing products. We solicit extensive feedback concerning product development from customers, both directly from and indirectly through our channel distributors.

We believe that our software development teams and 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, such as emerging Web services technologies, management standards and Microsoft's newest technologies. Many groups within the software development teams have expertise in Extensible Markup Language, or XML, based software development, integration of acquired technology, multi-tier Web-based application development and deployment, SSL secure access, hypervisor technologies, cloud technologies, networking technologies, VoIP-based audio technology, Web-based video technology and building SaaS. We incurred research and development expenses of approximately $489.3 million in 2016, $564.0 million in 2015 and $553.8 million in 2014.

Sales, Marketing and Services

We market and license our products and services through multiple channels worldwide, including selling through resellers and direct over the Web. Our partner community comprises thousands of value-added resellers known as Citrix Solution Advisors, VADs, cloud service providers, SIs, ISVs and OEMs. Distribution channels are managed by our worldwide sales and services organization. Partners receive training and certification opportunities to support our portfolio of products, solutions and services. In addition, the GoTo Business segment provided our collaboration and data sharing offerings through direct corporate sales, our partner community, and direct through our websites.

We reward our partners that provide sales expertise, services delivery, customer education, technical implementation and support of the Citrix portfolio of products through our Citrix Advisor Rewards program. We continue to focus on increasing the productivity of our existing partners, and 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 partners within the Citrix Service Provider program. These partners, consisting of managed service providers, IT hosting companies and telcos, license our desktop, application, networking and enterprise mobility management products on a monthly subscription basis. With these technologies partners then create various vertically differentiated offers of their own, consisting of cloud-hosted applications and cloud-hosted desktops, which they then resell both to SMBs and to enterprise IT. Besides supplying technology, we are actively engaged in assisting these partners develop their hosted businesses either within their data centers or leveraging public cloud infrastructure by supplying business and marketing assistance.

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 non-performing partners, recruitment of partners with expertise in selling into new markets and forming additional strategic global and national partnerships. 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 Accenture, Capgemini, Computer Sciences Corporation, Dimension Data, HPE, Fujitsu, IBM Global Services, and Wipro, among others. Computer Sciences Corporation, Fujitsu, HPE, IBM and Wipro all deliver offerings powered by the Citrix Workspace Suite. 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, McKesson Corporation, and Siemens Medical Health Solutions, among several others.

Our corporate marketing organization provides sales and industry event support, demand generation, Web and social marketing, sales tools and collateral, advertising, direct mail, industry analyst relations and public relations coverage to our indirect channels to aid in market development and in attracting new 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 products.

In fiscal years 2016 and 2015, there were no individual customers that accounted for over 10% of our total net revenues. In fiscal year 2014, one distributor, Ingram Micro, accounted for 13% of our total net revenues. Our distributor arrangements with Ingram Micro consist of several non-exclusive, independently negotiated agreements with its subsidiaries, each of which covers different countries or regions. Each agreement is negotiated separately and is independent of any other contract (such as a master distribution agreement), one of which was individually responsible for over 10% of our total net revenues in fiscal year 2014.

We are not obligated to accept product returns from our distributors under any conditions, unless the product item is defective in manufacture. 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, 2016 for information regarding our revenue recognition policy.

International revenues (sales outside the United States) accounted for approximately 40.7% of our net revenues for the year ended December 31, 2016, 43.1% of our net revenues for the year ended December 31, 2015 and 45.2% of our net revenues for the year ended December 31, 2014. For detailed information on our international revenues, please refer to Note 11 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2016.

Segment Revenue

Our revenues are derived from our Enterprise and Service Provider products, which primarily include Workspace Services solutions, Delivery Networking products, Cloud Services solutions, and related license updates and maintenance, support and professional services and from the GoTo Business segment's Communications Cloud and Workflow Cloud products. The Enterprise and Service Provider and the GoTo Business segment constitute our two reportable segments. On January 31, 2017, we completed the divestiture of the GoTo Business of our wholly-owned subsidiary, GetGo. As such, we are currently evaluating our segment reporting for 2017 as a result of these changes. See Note 11 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2016.

Operations

For our Delivery Networking products, which include NetScaler 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 products. 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 2016, we did not experience any material difficulties or significant delays in the manufacture and assembly of our products.

We control 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 product upon receipt of properly finalized purchase orders, we sometimes have orders that have not shipped upon receipt of a purchase order. Although the amount of such product license orders may vary, the amount, if any, of such orders at the end of a fiscal year is not material to our business. 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 2017. 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.

Competition

We sell our products 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 products 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, 2016.

Workspace Services

Our Application Virtualization and VDI solutions are based on an alternative 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 from basic virtualization solutions with robust security, flexibility and end user experience to enable IT to deliver Windows apps and desktops for better business outcomes. Our primary competition in this market is the existing IT desktop management practice of manually configuring physical desktops, which is time-consuming, expensive and subject to inconsistency. We also face numerous competitors that provide automation of these processes and alternative 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, in particular SaaS-delivered applications and mobile devices such as smartphones and tablet computers. We believe XenApp and XenDesktop give us a competitive advantage by providing customers multiple ways to virtualize and deliver desktops and/or apps with one, 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. No other competitor can currently match this level of flexibility and choice in VDI and app virtualization solutions.

Our Enterprise Mobility Management product line, XenMobile, competes with AirWatch by VMware, MobileIron, Good Technology by BlackBerry and many other smaller competitors. We believe we differentiate ourselves from these competitors by providing the most complete solution on the market, with MDM, MAM and superior core mobile productivity applications, including secure mobile email, calendar, browser, notes and more along with integration with Microsoft's mobility management platform, EMS. 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 for their mobile apps and can drive similar integrations.

We also see competition from competitors that are combining mobile and desktop technologies. We believe our solution, Citrix Workspace Suite, is the best solution available today that can securely deliver a secure digital workspace - with any Windows, 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 Suite. Further, 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.

Delivery Networking

Our NetScaler ADC products compete against other established competitors, including, F5 Networks, Inc., or F5, and to a lesser extent, Radware, A10 Networks and Amazon Web Services. The ADC segment also includes a number of emerging start-up and open source-based competitors. The companies compete with us for traditional enterprise sales opportunities, while F5 is our principal competitor in the Internet-centric market segment. We continue to enhance NetScaler ADC's feature capability and invest in go-to-market resources to market NetScaler ADC to our existing customer base and new potential customers as well as expanding into telco and cloud provider markets. NetScaler ADC’s integration with XenApp and XenDesktop provides a major competitive advantage with customers who are already using these products.

Our NetScaler SD-WAN product competes against both traditional WAN optimization and infrastructure vendors, such as Riverbed, Cisco, Silver Peak and Blue Coat, and managed service providers.

Cloud Services

In the data sharing segment, our ShareFile product's direct competition includes Dropbox, Box, Syncplicity, BlackBerry's Watchdox, Accellion, Microsoft 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 our ShareFile product offers a superior solution for businesses as it is built specifically for the needs of business. Further, we believe that our strong reputation in certain vertical segments, along with ShareFile's integration with other Citrix products, such as Receiver and XenMobile, and our unique ability to store data on-premise or in the Cloud, are key differentiators.

GoTo Business

The GoTo Business segment competed against a host of products offered by a number of established technology players including Adobe, Google, Apple, Cisco, LMI and Microsoft, and its voice service offerings compete against services provided by telecom service providers such as Verizon, AT&T, Intercall, PGi, RingCentral, Vonage and BT. Additionally, the GoTo Business competed against a number of emerging players such as Zoom, HighFive, TeamViewer, Blue Jeans, Intercall, PGi, Ring Central, Vonage and Splashtop. The GoTo Business also competed against a host of alternative technologies, such as VPN or cloud-based platforms, and on-premise support options.

Proprietary Technology

Our success is dependent upon certain proprietary technologies and core intellectual property. 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 such as Citrix, NetScaler ADC, NetScaler SD-WAN, ShareFile, Xen, XenApp, XenDesktop, XenServer, XenMobile and many others (including the widely known “GoTo” marks, which were transferred to LogMeIn in connection with the spin-off and subsequent merger of our subsidiary GetGo with LogMeIn that was completed in January 2017). While our competitive position could be affected by our ability to protect our proprietary information, we believe that because of the rapid pace of technological change in the industry, factors such as the technical expertise, knowledge and innovative skill of our management and technical personnel, our technology relationships, name recognition, the timeliness and quality of support services provided by us and our ability to rapidly develop, enhance and market software products could be more significant in maintaining our competitive position. See Part I-Item 1A entitled “Risk Factors” included in this Annual Report on Form 10-K for the year ended December 31, 2016.

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, 2016.

Employees

As of December 31, 2016, we had approximately 9,600 employees, including approximately 1,700 employees related to the GoTo Business. 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, 2016, and in the documents incorporated by reference into this Annual Report on Form 10-K for the year ended December 31, 2016, that are not historical facts, including, but not limited to, statements concerning new products, product development and offerings of products and services, market positioning, distribution and sales channels, our partners and other strategic or technology relationships, financial information and results of operations for future periods, product and price competition, strategy, operational and growth initiatives, seasonal factors, natural disasters, stock-based compensation, licensing and subscription renewal programs, international operations and expansion, investment transactions and valuations of investments and derivative instruments, reinvestment or repatriation of foreign earnings, fluctuations in foreign exchange rates, tax matters, acquisitions, stock repurchases, our debt, changes in accounting rules or guidance, changes in domestic and foreign economic conditions, delays or reductions in technology purchases, liquidity, 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, 2016, 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

A significant portion of our revenues has historically come from our Application Virtualization and VDI solutions, and decreases in sales for certain of these products 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. We continue to anticipate that sales of our Application Virtualization and VDI solutions and related enhancements and upgrades will constitute a majority of our revenue for the foreseeable future; and with the completion of the spinoff of the GoTo Business, our business will be further dependent upon sales of these products. Declines and variability in sales of certain of our Application Virtualization and VDI solutions could occur as a result of:
- new competitive product releases and updates to existing products, 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.

In addition, we have experienced increased competition in the Application Virtualization and VDI business from directly competing products, alternative products and products on new platforms. For example, Amazon Web Services provides Amazon WorkSpaces and VMWare provides Horizon, both of which compete with our XenApp product offerings. 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 tablet computers. 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. In addition, modifications to certain of our Application Virtualization and VDI solutions may cause variability in our Application Virtualization and VDI revenue, and make it difficult to predict our revenue growth and trends, as our customers adjust their purchasing decisions in response to such events.

Our business could be adversely impacted by conditions affecting the information technology market.
The markets for our products 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 product and service introductions and enhancements.

The demand for our products 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. Moreover, the purchase of our products and services is often discretionary and may involve a significant commitment of capital and other 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 products and services most aligned with legacy platforms (such as our desktop virtualization products) could decrease. Fluctuations in the demand for our products 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 products 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 product 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 products. Additionally, there is a risk that our products may become outdated or that our market share may erode. Further, the announcement of the release, and the actual release, of new products incorporating similar features to our products could cause our existing and potential customers to postpone or cancel plans to license certain of our existing and future product and service offerings. Existing or new products and services that provide alternatives to our products and services could materially impact our ability to compete in these markets. As the markets for our products and services, especially those products 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 products as the options for Workspace Services, Delivery Networking products and electronic file sync and sharing solutions 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.

Potential new product and technology initiatives and transitions to new business models and markets subject us to additional business, legal and competitive risks.

Returning to growth may require us to introduce new products and services and transition to new business models and markets. For example, meeting customer demands for cloud-delivered services requires us to develop new products and distribution models. Our cloud-delivered solutions require continued investment in new operations and business processes, and may draw resources away from our traditional on-premise solutions. This and other potential new initiatives subject us to additional risks including:

- certain of our new product initiatives have a subscription model, and we may not be able to accurately predict subscription renewal rates or their impact on our results of operations;
- if customers do not adopt our new product or service offerings, we may be unable to recoup or realize a reasonable return on our investment in these new products and services;
- sales of existing products and service offerings may be delayed while customers are investigating our new offerings;
- competitive product and service offerings in emerging IT sectors may gain broad adoption before our products and services, and it may be difficult for us to displace such offerings regardless of the comparative technical merit, efficacy or cost of our products and services;
- we may not be able to develop and implement effective go-to-market strategies and train our sales team and channel partners in order to effectively market offerings in product categories in which we have less experience than our competitors;
- we may not be able to develop effective pricing strategies for our new products and services;
- hardware, software and cloud hosting vendors may not be able to ensure interoperability with our products and offer compatible products and services to end users;
- our new initiatives may be hosted by third parties whom we do not control but whose failure to prevent service disruptions, or other failures or breaches may require us to compensate, indemnify or otherwise be liable to customers or third parties for business interruptions or damages that may occur; and
- our operating margins in our new initiatives may be lower than those we have achieved in our more mature products and services markets.

Recent changes in our support offerings could adversely impact our business.

We recently redefined our support offerings with the introduction of Citrix Customer Success Services and our customers began migrating to this new service offering. While this offering provides greater benefits to our customers, it results in a price increase. If customers do not adopt Customer Success Services, we may be unable to recoup or realize a reasonable return on our investment in this new service, which could adversely affect our business, results of operations and financial condition.

Our Delivery Networking business has a concentrated number of customers.

Our Delivery Networking business has generated a substantial portion of its revenues from a limited number of customers. As a result, if our Delivery Networking business loses certain customers or one or more such customers significantly decreases its orders, our business, results of operations and financial condition could 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 products 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. 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.

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. Continued economic uncertainty across all our significant geographic locations may adversely affect sales of our products and services and may result in longer sales cycles, slower adoption of technologies and increased price competition. For example, if the U.S. or China were to experience an economic downturn, these adverse economic conditions could contribute to a decline in our customers’ spending on our products and services. Additionally, in response to sustained economic uncertainty, many governmental organizations outside the U.S. that are current or prospective customers for our products and services continue to make significant spending cutbacks, which may continue to reduce the amount of government spending on IT and demand for our products 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.

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 as companies attempt to strengthen or hold their market positions in an evolving and volatile industry and as companies are acquired or are unable to continue operations. 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 Workspace Services, Delivery Networking and electronic file sync and 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 Workspace Services and Delivery Networking and Cloud Services 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 products and services. The companies resulting from these possible combinations may create more compelling product 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 products 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 products and services may involve the transmission and/or storage of data, including in certain instances customers' business and personally identifiable information. Thus, maintaining the security of products, computer networks and data storage resources is important as security breaches could result in product or service vulnerabilities and loss of and/or unauthorized access to confidential information. We devote significant resources to addressing security vulnerabilities in our products and services through our efforts to engineer more secure products and services, enhance security and reliability features in our products 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. Despite our efforts, from time to time, we experience attacks and other cyber-threats. Generally speaking, 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, for example, through a vendor or other third-party, attack our products, services or networks, or otherwise exploit any security vulnerabilities of our products, services and networks. 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. 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.

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):

- harm to our reputation or brand, which could lead some customers to seek to cancel subscriptions, stop using certain of our products or services, reduce or delay future purchases of our products or services, or use competing products 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;
-

state or federal enforcement action, which could result in 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.

16

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

Regulation of privacy and data security may adversely affect sales of our products 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 Global Data Protection Regulation, which is expected to take effect in 2018. 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. If so, in addition to the possibility of fines, this 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 products and our results of operations.

Our products 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 Workspace Services 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 product to potential and existing customers prior to sale;
- our service personnel typically spend a significant amount of time assisting potential customers in their testing and evaluation of our products 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 products 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 products 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 products, 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 products 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 product 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 product. We could implement different licensing models in certain circumstances, for which we would recognize licensing fees over a longer period, including offering additional products 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 and other factors, could impact the timing of the recognition of revenue for our products, related enhancements and services and could adversely affect our operating results and financial condition.
Further, we may be required to defer the recognition of revenue that we receive from the sale of certain bundled products if we have not established vendor specific objective evidence, or VSOE, for the undelivered elements in the arrangement in accordance with generally accepted accounting principles in the United States, or GAAP. A delay in the recognition of revenue from sales of these bundled products may cause fluctuations in our quarterly financial results and may adversely affect our operating margins. Similarly, 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 license updates and maintenance products constitute a large portion of our deferred revenue.
We anticipate that sales and renewals of our license updates and maintenance products will continue to constitute a substantial portion of our deferred revenue. Our ability to continue to generate both recognized and deferred revenue from our license updates and maintenance products will depend on our customers continuing to perceive value in automatic delivery of our software upgrades and enhancements. Further, our customers began migrating to our new maintenance service offering, Citrix Customer Success Services. While this offering provides greater benefits to our customers, it results in a price increase. We may experience a decrease in renewal rate due to the price increase and perceived value of Customer Success Services offerings. Additionally, a decrease in demand for our license updates and maintenance products could occur as a result of a decrease in demand for our Workspace Services, Delivery Networking and Cloud Services solutions. If our customers do not continue to purchase our license updates and maintenance products, our deferred revenue would decrease significantly and our results of operations and financial condition would be adversely affected.
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, 2016, we derived approximately 40.7% 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. In addition, there is significant competition for entry into high growth markets where we may seek to expand, such as China, the Middle East and

Eastern Europe. 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 (including the impact of the proposed exit of the United Kingdom from the European Union, commonly referred to as "Brexit");
- 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;
- violations of the Foreign Corrupt Practices Act 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.

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 products 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. 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 products. 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 products 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 and a steady adoption rate of our products, which could increase our operating expenses. 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 reduce our results from operations if such channels do not result in increased revenues.

Our Delivery 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 Delivery 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 Delivery 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 Delivery 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.

A significant portion of our cash and cash equivalents are held overseas. If we are not able to generate sufficient cash domestically in order to fund our U.S. operations, stock repurchases and strategic opportunities, and to service our debt, we may incur a significant tax liability in order to repatriate the overseas cash balances, or we may need to raise additional capital in the future.

As of December 31, 2016, $2.08 billion of our cash, cash equivalents and investments were held in foreign countries. These amounts are not freely available for dividend repatriation to the U.S. without triggering significant adverse tax consequences in the U.S. As a result, if the cash generated by our domestic operations is not sufficient to fund our domestic operations, our broader corporate initiatives such as stock repurchases, acquisitions, and other strategic opportunities, and to service our outstanding indebtedness, we may need to raise additional funds through public or private debt or equity financings, or we may need to obtain new credit facilities to the extent we choose not to repatriate our overseas cash. Such additional financing may not be available on terms favorable to us, or at all, and any new equity financings or offerings would dilute our current stockholders' ownership. Furthermore, lenders may not agree to extend us new, additional or continuing credit. If adequate funds are not available, or are not available on acceptable terms, we may be forced to repatriate our foreign sources of liquidity and incur a significant tax expense or we may not be able to take advantage of strategic opportunities, develop new products, respond to competitive pressures, repurchase outstanding stock or repay our outstanding indebtedness. In any such case, our business, operating results or financial condition could be adversely impacted. For further information, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources."

RISKS RELATED TO THE SEPARATION OF THE GOTO BUSINESS

We may not realize the intended benefits of the separation of the GoTo Business.

We may not be able to achieve some or all of the anticipated strategic, financial, operational, marketing or other benefits expected to result from the separation of the GoTo Business, or such benefits may be delayed. Following the separation of the GoTo Business in January 2017, Citrix became a smaller, less diversified company with a focus on the secure delivery of apps and data; and, as a result, we may be more vulnerable to changing market conditions, which could materially and adversely affect our business, results of operations and financial condition. The separation of the businesses may also eliminate or reduce certain synergies that existed between our various businesses prior to the separation. In addition, as a result of the separation of the GoTo Business, we may be limited in our ability to engage in significant stock repurchases or issuances.

The separation of the GoTo Business and the subsequent merger of GetGo, Inc. could result in substantial tax liability.

On January 31, 2017, we closed the divestiture of the GoTo Business via a "Reverse Morris Trust" transaction pursuant to which a wholly-owned subsidiary of the LogMeIn, Inc. merged with and into GetGo, Inc., with GetGo, Inc. surviving the merger and becoming a wholly-owned subsidiary of LogMeIn, Inc. The Reverse Morris Trust transaction was structured to qualify as tax-free to Citrix and its shareholders. We obtained an opinion of outside counsel that, for U.S. federal income tax purposes, the separation of the GoTo Business qualified, for both the company and our stockholders, as tax-free, and the subsequent merger of GetGo, Inc. with a wholly-owned subsidiary of LogMeIn, Inc. would not render the separation of the GoTo Business taxable to Citrix and its shareholders. The opinion of outside counsel was based, among other things, on various factual assumptions we have authorized and representations we, GetGo, Inc. and LogMeIn, Inc. have made to outside counsel. If any of these assumptions or representations are, or become, inaccurate or incomplete, reliance on the opinion may be affected. An opinion of outside counsel represents their legal judgment but is not binding on the IRS or any court. Accordingly, there can be no assurance that the IRS will not challenge the conclusions reflected in the opinions or that a court would not sustain such a challenge. If the separation or certain internal transactions undertaken in anticipation of the separation are determined to be taxable for U.S. federal income tax purposes, we and/or our stockholders that are subject to U.S. federal income tax could incur significant U.S. federal income tax liabilities.

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.

In recent years, we have addressed the development of new products and services and enhancements to existing products 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, products and systems of the acquired companies;
- undetected errors or unauthorized use of a third-party's code in products 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 products 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; 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 research and development arrangements, sales 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 other companies with which we work to offer complementary products and services. We depend on the companies with which we have strategic relationships to successfully test our products, to incorporate our technology into their products and to market and sell those products. 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 products or to otherwise obtain and use our proprietary source code. 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, loss of our market share could result, including as a result of unauthorized third parties’ development of products 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 products 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 products. Moreover, with respect to the various confidentiality, license or other agreements we utilize with third parties related to their use of our products and technologies, there is no guarantee that such parties will abide by the terms of such agreements.

Our products and services, including products 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 products. 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 products and services and the overlap in the functionality of those products 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 products, or to otherwise block us from taking full advantage of our markets;

- our products and services may rely on the technology of others and, therefore, require us to obtain intellectual property licenses from third parties in order for us to commercialize our products or services and we may not be able to obtain or continue to obtain licenses from these third parties on reasonable terms; and
- the unauthorized or improperly licensed use of third-party code in our products.

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 products 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 impacted.

Our use of "open source" software could negatively impact our ability to sell our products and subject us to possible litigation.

The products or technologies acquired, licensed or developed by us may incorporate so-called "open source" software, and we may incorporate open source software into other products 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 products 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 products 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 products. 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 products 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 products could be delayed.

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

- undetected errors or unauthorized use of another person's code in the third party's software;
- disagreement over the scope of the license and other key terms, such as royalties payable and indemnification protection;
- infringement actions brought by third-parties;
- that third parties will create solutions that directly compete with our products; 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 products. 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 product and service brands that we have developed have significantly contributed to the success of our business. Maintaining and enhancing the Citrix product 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 products and services. 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
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.
Servicing our debt will require a significant amount of cash, which could adversely affect our business, financial condition and results of operations.
We have aggregate indebtedness of approximately $1.4 billion that we have incurred in connection with the issuance of our 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 future indebtedness, depends on our future performance, which is subject to 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 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, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, 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 Notes 12 and 13 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2016 for information regarding our Convertible Notes and our Credit Facility.
In addition, holders of the Convertible Notes will 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. Further, upon conversion of the Convertible Notes, we will be 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. However, we may not have enough available cash or be able to obtain financing at the time we are

required to make repurchases of Convertible Notes surrendered therefor or Convertible Notes being converted. In addition, our ability to repurchase the Convertible Notes or to pay cash upon conversions of the Convertible Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase Convertible Notes at a time when the repurchase is required by the indenture or to pay any cash payable on future conversions of the Convertible Notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under our Credit Agreements or agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Convertible Notes or make cash payments upon conversions of the Convertible Notes.

Further, 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. If we fail to comply with these covenants or any other provision of the Credit Agreement, we may be in default under the Credit Agreement, and we cannot assure you that we will be able to obtain the necessary waivers or amendments of such default. Upon an event of default under our Credit Agreement, if not otherwise amended or waived, the affected lenders could accelerate the repayment of any outstanding principal and accrued interest on their outstanding loans and terminate their commitments to lend additional funds, which may have a material adverse effect on our liquidity and financial position and, further, we may not have sufficient funds to repay such indebtedness.

In addition, 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.

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.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, or ASC 470-20. Under 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. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Convertible Notes to their face amount over the term of the Convertible Notes. 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.

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

Our investment portfolio consists of agency securities, corporate securities, money market funds, municipal (including auction rate) 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 Internal Revenue Service, or 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. Additionally, 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.

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; 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, including the potential impact of the adoption and implementation of the accounting standard update on revenue recognition issued in May 2014 by the Financial Accounting Standards Board. 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.

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 2016 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 Asia-Pacific. The following table presents the location and square footage of our leased office space by reporting segment as of December 31, 2016:

	Enterprise and Service Provider	GoTo Business
	(square footage)	
Americas	781,043	153,199
EMEA	190,081	82,990
Asia-Pacific	624,568	41,512
Total	1,595,692	277,701

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, approximately 74,000 square feet of office space in Goleta, California related to the GoTo Business segment, and 41,000 square feet of office space in EMEA related to our Enterprise and Service Provider segment.

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 products and services, or the other matters. 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

Price Range of Common Stock and Dividend Policy

Our common stock is currently traded on The NASDAQ Global Select Market under the symbol CTXS. The following table sets forth the high and low sales prices for our common stock as reported on The NASDAQ Global Select Market for the periods indicated, as adjusted to the nearest cent.

	High	Low
Year Ended December 31, 2016:		
Fourth quarter	$92.40	$81.36
Third quarter	$89.50	$78.57
Second quarter	$90.00	$76.25
First quarter	$79.16	$60.91
Year Ended December 31, 2015:		
Fourth quarter	$84.17	$68.50
Third quarter	$78.42	$65.11
Second quarter	$73.12	$60.85
First quarter	$64.99	$56.47

On February 10, 2017, the last reported sale price of our common stock on The NASDAQ Global Select Market was $78.55 per share. As of February 10, 2017, there were 549 holders of record of our common stock.

We currently intend to retain any earnings for use in our business, for investment in acquisitions and to repurchase shares of our common stock. We have not paid any cash dividends on our capital stock in the last two years and do not currently anticipate paying any cash dividends on our capital stock in the foreseeable future.

Issuer Purchases of Equity Securities

Our Board of Directors has authorized an ongoing stock repurchase program with a total repurchase authority granted to us of $6.8 billion, of which $500.0 million was approved in January 2017. 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, 2016, approximately $404.0 million was available to repurchase common stock pursuant to the stock repurchase program. All shares repurchased are recorded as treasury stock. The following table shows the monthly activity related to our stock repurchase program for the quarter ended December 31, 2016.

	Total Number of Shares Purchased [(1)]	Average Price Paid per Share	Approximate dollar value of Shares that may yet be Purchased under the Plans or Programs (in thousands)[(2)]
October 1, 2016 through October 31, 2016	19,406	$ 84.14	$ 404,006
November 1, 2016 through November 30, 2016	40,634	$ 84.42	$ 404,006
December 1, 2016 through December 31, 2016	71,724	$ 86.06	$ 404,006
Total	131,764	$ 85.27	$ 404,006

(1) Represents shares acquired in open market purchases and 131,764 shares withheld from restricted stock units and stock awards that vested in the fourth quarter of 2016 to satisfy minimum tax withholding obligations that arose on the vesting of such restricted stock units and stock awards. We had no open market purchases of our common stock during the quarter ended December 31, 2016 as a result of the separation of the GoTo Business, which closed on January 31, 2017. For more information see Note 8 to our consolidated financial statements.

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

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,				
	2016	2015	2014	2013	2012
	(In thousands, except per share data)				
Consolidated Statements of Income Data:					
Net revenues	$3,418,265	$3,275,594	$3,142,856	$2,918,434	$2,586,123
Cost of net revenues[a]	559,541	614,364	620,219	502,795	404,137
Gross margin	2,858,724	2,661,230	2,522,637	2,415,639	2,181,986
Operating expenses [b]	2,209,566	2,311,145	2,220,326	2,034,922	1,791,208
Income from operations	649,158	350,085	302,311	380,717	390,778
Interest income	16,686	11,675	9,421	8,194	10,152
Interest expense	44,949	44,153	28,332	128	312
Other (expense) income, net	(4,131)	(5,730)	(7,694)	(893)	9,611
Income before income taxes	616,764	311,877	275,706	387,890	410,229
Income tax expense (benefit)	80,652	(7,484)	23,983	48,367	57,682
Net income	536,112	319,361	251,723	339,523	352,547
Net income per share - diluted	$3.41	$1.99	$1.47	$1.80	$1.86
Weighted average shares outstanding - diluted	157,084	160,362	171,270	188,245	189,129

	December 31,				
	2016	2015	2014	2013	2012
	(In thousands)				
Consolidated Balance Sheet Data:					
Total assets	$6,390,227	$5,467,517	$5,512,007	$5,212,249	$4,796,402
Total equity	2,608,727	1,973,446	2,173,645	3,319,807	3,121,777

(a) Cost of net revenues includes amortization and impairment of product related intangible assets of $60.4 million, $131.2 million, $146.4 million, $97.9 million, and $80.0 million in 2016, 2015, 2014, 2013 and 2012, respectively.

(b) Operating expenses includes amortization and impairment of other intangible assets of $29.2 million, $108.7 million, $45.9 million, $41.7 million, and $34.5 million in 2016, 2015, 2014, 2013 and 2012, respectively.

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

Overview

Citrix delivers solutions to make applications secure and easy to access, anywhere, anytime and on any device or network. Our mission is to power a world where people, organizations and things are securely connected and accessible.

We market and license our products directly to customers, over the Web, and through systems integrators, or SIs, in addition to indirectly through value-added resellers, or VARs, value-added distributors, or VADs, original equipment manufacturers, or OEMs and service providers.

We are a Delaware corporation founded on April 17, 1989.

Executive Summary

Our products and services mobilize desktops, apps and data to help our customers drive value. We continue driving innovation in the datacenter with our products and services across both physical and software defined networking platforms while powering some of the world's largest clouds and giving enterprises the capabilities to combine best-in-class application networking services on a single, consolidated footprint. Our work with Citrix Service Providers, or CSPs, to deliver our products in the cloud is how we are meeting customer demand for subscription-based services for the delivery of apps from Windows to web to mobile.

During the year ended December 31, 2016, we delivered solid progress on our operational initiatives designed to improve scalability of our infrastructure and cost saving efficiencies. This included restructuring programs, changes in our field and channel strategies and continued focus on our core strategy, the secure delivery of apps and data. Our efforts have contributed to higher operating margins and a foundation for sustained profitable growth of our business.

On January 25, 2017, we announced that our Board approved an increase of $500 million to our existing share repurchase program, bringing the total current authorization to over $900 million.

On January 31, 2017, we completed the spin-off of our GoTo Business (the "Spin-off") and subsequent merger of that business with LogMeIn, Inc. ("LogMeIn") pursuant to the terms of (1) an Agreement and Plan of Merger, dated as of July 26, 2016 (the "Merger Agreement"), by and among Citrix, GetGo, Inc., a wholly-owned subsidiary of Citrix ("GetGo"), LogMeIn, and a wholly-owned subsidiary of LogMeIn ("Merger Sub"), and (2) a Separation and Distribution Agreement, dated as of July 26, 2016, by and among Citrix, LogMeIn and GetGo. Under the Spin-off, we distributed approximately 26.9 million shares of GetGo common stock to our stockholders of record as of the close of business on January 20, 2017. We delivered the shares of GetGo common stock to our transfer agent, who held such shares for the benefit of our stockholders. Immediately thereafter, Merger Sub was merged with and into GetGo, with GetGo continuing as a wholly owned subsidiary of LogMeIn (the "Merger"). As a result of the Merger, each share of GetGo common stock was converted into the right to receive one share of LogMeIn common stock. As a result of these transactions, our stockholders received approximately 26.9 million shares of LogMeIn common stock in the aggregate, or 0.171844291 of a share of LogMeIn common stock for each share of Citrix common stock held of record by our stockholders as of the close of business on January 20, 2017. No fractional shares of LogMeIn were issued, and our stockholders instead received cash in lieu of any fractional shares. The distribution of the shares of GetGo common stock to our stockholders also resulted in an adjustment to the conversion rate for our 0.500% Convertible Notes due 2019 (the "Convertible Notes") under the terms of the related indenture. As a result of this adjustment, the conversion rate for the Convertible Notes in effect as of the opening of business on February 1, 2017 was 13.9061 shares of Citrix common stock per $1,000 principal amount of Convertible Notes.

Summary of Results

For the year ended December 31, 2016 compared to the year ended December 31, 2015, we delivered the following financial performance:

- Product and license revenue increased 0.9% to $883.3 million;
- Software as a service revenue increased 11.6% to $816.4 million;
- License updates and maintenance revenue increased 4.4% to $1.6 billion;
- Professional services revenue decreased 11.0% to $131.2 million;
- Gross margin as a percentage of revenue increased 2.4% to 83.6%;
- Operating income increased 85.4% to $649.2 million; and

- Diluted earnings per share increased 71.4% to $3.41.

The increase in our Product and licenses revenue was primarily driven by higher overall sales of our Workspace Services solutions and Delivery Networking products, partially offset by lower sales of our non-core products. Our Software as a service revenues increased due to increased sales of GoTo Business products and Cloud Services products. The increase in License updates and maintenance revenue was primarily due to increased sales of maintenance revenues across our Workspace Services and Delivery Networking products, partially offset by a decrease in our Subscription Advantage product and our technical and premier support as customers continue to migrate to our new software maintenance solutions. The decrease in Professional services revenue was primarily due to decreased implementation services and product training and certification related to our Workspace Services solutions. We currently expect total revenue, excluding the GoTo Business, to increase when comparing the first quarter of 2017 to the first quarter of 2016. In addition, when comparing the 2017 fiscal year to the 2016 fiscal year, we currently expect total revenue, excluding the GoTo Business, to increase. The increase in 2016 gross margin as a percentage of net revenue was primarily due to 2015 including the impairment of certain product related intangible assets. The increase in operating income and diluted earnings per share when comparing 2016 to 2015 was primarily due to an increase in revenues and gross margin, as well as a reduction in operating expenses as a result of our operational initiatives. Also contributing to the increase in diluted earnings per share was the impact of share repurchases during 2015, which reduced our weighted-average shares outstanding, partially offset by an increase in our effective tax rate.

Our preliminary outlook for the 2017 fiscal year is for net revenues and expenses to decrease overall compared to the 2016 fiscal year as a result of the separation of the GoTo Business, which was completed on January 31, 2017. In addition, we currently expect operating income to improve when comparing the 2017 fiscal year to the 2016 fiscal year. In 2017, the GoTo Business will be accounted for as a discontinued operation for all periods presented.

2016 Business Combination

On September 7, 2016, we acquired all of the issued and outstanding securities of a privately held company. The acquisition provides a software solution that cuts the cost of desktop and application virtualization and delivers workspace performance by accelerating desktop logon and application response times for any Microsoft Windows-based environment. The acquired company became part of our Enterprise and Service Provider segment. The total cash consideration for this transaction was approximately $11.5 million, net of $0.8 million cash acquired. Transaction costs of $0.4 million are presented within General and administrative expense in the accompanying consolidated statements of income. The assets related to this acquisition relate primarily to $8.2 million of product technology identifiable intangible assets with a 4 year life and goodwill of $4.7 million.

We have included the effects of this business acquired in 2016 in our results of operations prospectively from the date of the acquisition.

2016 Asset Acquisition

On January 8, 2016, we acquired certain monitoring technology assets from a privately-held company for total cash consideration of $23.6 million. The acquisition provides a monitoring solution for Citrix's products as it relates to Microsoft Windows applications and desktop delivery. The identifiable intangible assets acquired related primarily to product technologies.

2016 Divestiture

On February 29, 2016, we sold our CloudPlatform and CloudPortal Business Manager products to Persistent Telecom Solutions, Inc. The agreement included contingent consideration in the form of an earnout provision based on revenue for a period of five years following the closing date. Any income associated with the contingent consideration will be recognized if the earnout provisions are met.

2015 Acquisitions

Sanbolic

On January 8, 2015, we acquired all of the issued and outstanding securities of Sanbolic, Inc., or Sanbolic. We expected the Sanbolic technology would reduce the complexity of Microsoft Windows application delivery and desktop virtualization deployments. Sanbolic became part of our Enterprise and Service Provider segment. The total cash consideration for this transaction was approximately $89.4 million, net of $0.2 million cash acquired. Transaction costs associated with the acquisition were $0.5 million, of which we expensed $0.3 million during the year ended December 31, 2015 and are included in General and administrative expense in the accompanying consolidated statements of income. In addition, in connection with the acquisition, we assumed non-vested stock units which were converted into the right to receive, in the aggregate, up to 37,057 shares of our common stock, for which the vesting period began on the closing of the transaction. During the fourth quarter of 2015, management performed a comprehensive operational review which included an evaluation of all our products. In connection with this review, management determined that the Sanbolic technology was a non-core solution and that the related product offerings will no longer be developed. As a result, we impaired the remaining carrying value of the intangible assets related to this acquisition in the fourth quarter of 2015. Refer to Note 2 for further information about intangible assets.

Grasshopper

On May 18, 2015, we acquired all of the membership interests of Grasshopper Group, LLC ("Grasshopper"), a leading provider of cloud-based phone solutions for small businesses. With the acquisition, we will expand our breadth of communication and collaboration solutions for small businesses, including GoToMeeting, GoToTraining, GoToWebinar and OpenVoice. Grasshopper became part of the GoTo Business segment. Total cash consideration for this transaction was approximately $161.5 million, net of $3.6 million cash acquired. Transaction costs associated with the acquisition were $0.3 million, all of which we expensed during the year ended December 31, 2015 and are included in General and administrative expense in the accompanying consolidated statements of income. In addition, in connection with the acquisition, we assumed non-vested stock units which were converted into the right to receive, in the aggregate, up to 105,765 shares of our common stock, for which the vesting period commenced on the closing of the transaction.

Subsequent Event

On January 3, 2017, we acquired all of the issued and outstanding securities of Unidesk Corporation (“Unidesk”). Unidesk is the inventor of the Microsoft Windows application packaging and management technology known as application layering. We acquired Unidesk to enhance and provide a demonstrable difference in application management and delivery. By incorporating the Unidesk technology into XenApp and XenDesktop, we will advance our industry leadership by offering the most powerful and easy to deploy application layering solution available for delivering and managing applications and desktops in the cloud, on-premises and in hybrid deployment environments. Unidesk will become part of our Enterprise and Service Provider segment. The total preliminary cash consideration for this transaction was approximately $60.5 million, net of $2.7 million cash acquired. Transaction costs associated with the acquisition are currently estimated at $0.3 million, of which we expensed $0.3 million during the year ended December 31, 2016, which were included in General and administrative expense in the accompanying consolidated statements of income.

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, 2016 describes the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements.

Revenue Recognition

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

- Persuasive evidence of the arrangement exists. Evidence of an arrangement generally consists of a purchase order issued pursuant to the terms and conditions of a distributor, reseller or end user agreement. For SaaS, we generally require the customer or the reseller to electronically accept the terms of an online services agreement or execute a contract.
- Delivery has occurred and we have no remaining obligations. We consider delivery of licenses under electronic licensing agreements to have occurred when the related products are shipped and the end-user has been electronically provided the software activation keys that allow the end-user to take immediate possession of the product. For hardware appliance sales, our standard delivery method is free-on-board shipping point. Consequently, we consider delivery of appliances to have occurred when the products are shipped pursuant to an agreement and purchase order. For SaaS, delivery occurs upon providing the users with their login id and password. For product training and consulting services, we fulfill our obligation when the services are performed. For license updates and maintenance, we assume that our obligation is satisfied ratably over the respective terms of the agreements, which are typically 12 to 24 months. For SaaS, we assume that our obligation is satisfied ratably over the respective terms of the agreements, which are typically 12 months.
- The fee is fixed or determinable. In the normal course of business, we do not provide customers with the right to a refund of any portion of their license fees or extended payment terms. The fees are considered fixed or determinable upon establishment of an arrangement that contains the final terms of the sale including description, quantity and price of each product or service purchased. For SaaS, the fee is considered fixed or determinable if it is not subject to refund or adjustment.
- Collectability is probable. We assess collectability based primarily on the creditworthiness of the customer. Management's judgment is required in assessing the probability of collection, which is generally based on an evaluation of customer specific information, historical experience and economic market conditions. If we determine from the outset of an arrangement that collectability is not probable, revenue recognition is deferred until customer payment is received and the other parameters of revenue recognition described above have been achieved.

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

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

For our non-software transactions, we allocate the arrangement consideration based on the relative selling price of the deliverables. For our hardware appliances, we use ESP as our selling price. For our support and services, we generally use

VSOE as our selling price. When we are unable to establish selling price using VSOE for our support and services, we use ESP in our allocation of arrangement consideration.

The GoTo Business and Cloud Services products are considered hosted service arrangements per the authoritative guidance; accordingly, fees related to online service agreements are recognized ratably over the contract term. In addition, SaaS revenues may also include set-up fees, which are recognized ratably over the contract term or the expected customer life, whichever is longer. Generally, GoTo Business products were sold separately and not bundled with Enterprise and Service Provider products and services. See Note 2 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2016 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 investments that are accounted for based on the cost method. These investments are periodically reviewed for impairment and when indicators of impairment exist, are measured to fair value as appropriate on a non-recurring basis. In determining the fair value of our investments we are sometimes required to use various alternative valuation techniques. The authoritative guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

The authoritative guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: Level 1, observable inputs such as quoted prices in active markets for identical assets or liabilities, Level 2, inputs, other than quoted prices in active markets, that are observable either directly or indirectly, and Level 3, unobservable inputs in which there is little or no market data, which requires us to develop our own assumptions. Observable inputs are those that market participants would use in pricing the asset or liability that are based on market data obtained from independent sources, such as market quoted prices. When Level 1 observable inputs for our investments are not available to determine their fair value, we must then use other inputs which may include indicative pricing for securities from the same issuer with similar terms, yield curve information, benchmark data, prepayment speeds and credit quality or unobservable inputs that reflect our estimates of the assumptions market participants would use in pricing the investments based on the best information available in the circumstances. When valuation techniques, other than those described as Level 1 are utilized, management must make estimations and judgments in determining the fair value for its investments. The degree to which management’s estimation and judgment is required is generally dependent upon the market pricing available for the investments, the availability of observable inputs, the frequency of trading in the investments and the investment’s complexity. If we make different judgments regarding unobservable inputs we could potentially reach different conclusions regarding the fair value of our investments.

After we have determined the fair value of our investments, for those that are in an unrealized loss position, we must then determine if the investment is other-than-temporarily impaired. We review our investments quarterly for indicators of other-than-temporary impairment. This determination requires significant judgment and if different judgments are used the classification of the losses related to our investments could differ. In making this judgment, we employ a systematic methodology that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the carrying value of an available-for-sale investment exceeds its fair value, we evaluate, among other factors, general market conditions, the duration and extent to which the fair value is less than carrying value our intent to retain or sell the investment and whether it is more likely than not that we will not be required to sell the investment before the recovery of its amortized cost basis, which may not be until maturity. We also consider specific adverse conditions related to the financial health of and business outlook for the issuer, including industry and sector performance, rating agency actions and changes in credit default swap levels. For our cost method investments, our quarterly review of impairment indicators encompasses the analysis of specific criteria of the entity, such as cash position, financing needs, operational performance, management changes, competition and turnaround potential. If any of the above impairment indicators are present, we further evaluate whether an other-than-temporary impairment should be recorded. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established. See Notes 4 and 5 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2016 and "Liquidity and Capital Resources" for more information on our investments and fair value measurements.

Intangible Assets

We have acquired product related technology assets and other intangible assets from acquisitions and other third party agreements. We allocate the purchase price of acquired intangible assets acquired through third party agreements based on their estimated relative fair values. We allocate a portion of 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 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 products 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 products, 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 products 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 $228.0 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. During the year ended December 31, 2015, we tested certain intangible assets for recoverability due to changes in facts and circumstances associated with the shift in strategic focus and reduced profitability expectations. As a result, we identified certain definite-lived intangible assets that were impaired within our Enterprise and Service Provider segment, primarily customer relationships and product technologies from the acquisition of ByteMobile, and recorded non-cash impairment charges of $123.0 million to write down the intangible assets to their estimated fair value of $26.8 million. Of the impairment charge, $67.1 million is included in Impairment of other intangible assets and $55.9 million is included in Impairment of product related intangible assets in the accompanying consolidated statements of income.

Goodwill

The excess of the fair value of purchase price over the fair values of the identifiable assets and liabilities from our acquisitions is recorded as goodwill. At December 31, 2016, we had $1.97 billion in goodwill related to our acquisitions. Our revenues are derived from sales of our Enterprise and Service Provider segment's products, which include our Workspace Services solutions, Delivery Networking products, and related license updates and maintenance, and our Cloud Services offerings, as well as from sales of the GoTo Business segment’s Communications Cloud and Workflow Cloud products. As part of our continued transformation, effective January 1, 2016, we reorganized a part of our business by creating a new Cloud Services product grouping, which resulted in a change in segment composition. In connection with this change, during the first quarter of 2016, we performed an assessment of our goodwill reporting units and determined that the Cloud Services reorganization resulted in the identification of three goodwill reporting units (Enterprise and Service Provider excluding Cloud Services, Cloud Services and GoTo Business). The identification of these reporting units triggered a reallocation of goodwill as of January 1, 2016 based on the relative fair value approach, however no further quantitative impairment test was deemed necessary. Our reportable segments remain unchanged. We evaluate goodwill between our reportable segments, which are the Enterprise and Services Provider segment and the GoTo Business segment. Additionally, on January 31, 2017, we completed the separation and subsequent merger of the GoTo Business to LogMeIn. As a result, we are reevaluating our operating segments in the first quarter of 2017. See Note 11 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2016 for additional information regarding our reportable segments.

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 test on an annual basis, during the fourth quarter of our fiscal year, or more frequently, if changes in facts and circumstances indicate that an impairment in the value of goodwill and certain intangible assets recorded on our balance sheet may exist.

In the fourth quarter of 2016, we performed a qualitative assessment to determine whether further quantitative impairment testing for goodwill and certain intangible assets is necessary, which 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 2016 and 2015.

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, 2016, we had approximately $249.8 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, 2016, we determined that a $14.2 million valuation allowance relating to deferred tax assets for net operating losses and tax credits was necessary. If the estimates and assumptions used in our determination change in the future, we could be required to revise our estimates of the valuation allowances against our deferred tax assets and adjust our provisions for additional income taxes.

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

The following discussion relating to the individual financial statement captions, our overall financial performance, operations and financial position should be read in conjunction with the factors and events described in "— Overview" and Part 1 – Item 1A entitled "Risk Factors," included in this Annual Report on Form 10-K for the year ended December 31, 2016, which could impact our future performance and financial position.

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 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.

As a result of the structure of the Reverse Morris Trust (RMT) transaction with LogMeIn, Inc., and the notification on October 10, 2016 to noteholders in accordance with the Indenture, the Convertible Notes became convertible until the earlier of (1) the close of business on the business day immediately preceding the ex-dividend date for the distribution of the outstanding shares of GetGo common stock to our stockholders by way of a pro rata dividend, and (2) our announcement that such distribution will not take place, even though the Convertible Notes were not otherwise convertible at December 31, 2016. The conversion rate for the Convertible Notes, Convertible Note Hedge and Warrant Transactions also will be subject to adjustment as of the opening of business on the ex-dividend date for the distribution. The $1.44 billion Convertible Notes became convertible with the notice to noteholders. Accordingly, as of December 31, 2016, the carrying amount of the Convertible Notes of $1.3 billion was reclassified from Other liabilities to Current liabilities and the difference between the face value and carrying value of $79.5 million was reclassified from stockholders' equity to temporary equity in the accompanying consolidated balance sheets. See Note 18 for more information on the separation of the GoTo Business.

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,			2016 Compared to 2015	2015 Compared to 2014
	2016	2015	2014		
Revenues:					
Product and licenses	$883,329	$875,807	$899,736	0.9 %	(2.7)%
Software as a service	816,436	731,292	651,562	11.6	12.2
License updates and maintenance	1,587,271	1,521,007	1,416,017	4.4	7.4
Professional services	131,229	147,488	175,541	(11.0)	(16.0)
Total net revenues	3,418,265	3,275,594	3,142,856	4.4	4.2
Cost of net revenues:					
Cost of product and license revenues	121,391	118,265	124,110	2.6	(4.7)
Cost of services and maintenance revenues	377,731	364,916	349,683	3.5	4.4
Amortization of product related intangible assets	59,291	74,912	93,431	(20.9)	(19.8)
Impairment of product related intangible assets	1,128	56,271	52,995	(98.0)	6.2
Total cost of net revenues	559,541	614,364	620,219	(8.9)	(0.9)
Gross margin	2,858,724	2,661,230	2,522,637	7.4	5.5
Operating expenses:					
Research and development	489,265	563,975	553,817	(13.2)	1.8
Sales, marketing and services	1,185,814	1,195,362	1,280,265	(0.8)	(6.6)
General and administrative	377,568	336,313	319,922	12.3	5.1
Amortization of other intangible assets	29,173	41,595	39,577	(29.9)	5.1
Impairment of other intangible assets	—	67,137	6,321	(100.0)	962.1
Restructuring	71,122	100,411	20,424	(29.2)	391.6
Separation	56,624	6,352	—	791.4	*
Total operating expenses	2,209,566	2,311,145	2,220,326	(4.4)	4.1
Income from operations	649,158	350,085	302,311	85.4	15.8
Interest income	16,686	11,675	9,421	42.9	23.9
Interest expense	44,949	44,153	28,332	1.8	55.8
Other expense, net	(4,131)	(5,730)	(7,694)	(27.9)	(25.5)
Income before income taxes	616,764	311,877	275,706	97.8	13.1
Income tax expense (benefit)	80,652	(7,484)	23,983	1,177.7	(131.2)
Net income	$536,112	$319,361	$251,723	67.9	26.9

* not meaningful

Revenues by Segment

Net revenues of our Enterprise and Service Provider segment include Product and licenses, License updates and maintenance, Professional services and SaaS revenues related to our Cloud Services products. Product and licenses primarily represent fees related to the licensing of the following major products:

- Workspace Services is primarily comprised of XenDesktop, XenApp, XenMobile and Workspace Suite; and
- Delivery Networking primarily includes NetScaler ADC and NetScaler SD-WAN.

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

SaaS revenues, which are recognized ratably over the contractual term, primarily consist of fees related to our Cloud Services products, are comprised primarily of ShareFile.

License updates and maintenance consists of:

- Our Subscription Advantage program, an annual renewable program that provides subscribers with automatic delivery of unspecified software upgrades, enhancements and maintenance releases when and if they become available during the term of the subscription, for which fees are recognized ratably over the term of the contract, which is typically 12 to 24 months; and
- Our maintenance fees, which include technical support and hardware and software maintenance, and which are recognized ratably over the contract term.

Professional services revenues are comprised of:

- Fees from consulting services related to implementation of our products, which are recognized as the services are provided; and
- Fees from product training and certification, which are recognized as the services are provided.

Net revenues of the GoTo Business segment primarily include SaaS revenues, which are recognized ratably over the contractual term, consist of fees related to the following offerings:

- Communications Cloud offerings, which primarily include GoToMeeting, GoToWebinar, GoToTraining and Grasshopper; and
- Workflow Cloud offerings, which primarily include GoToMyPC and GoToAssist.

	Year Ended December 31,			2016 Compared to 2015	2015 Compared to 2014
	2016	2015	2014		
	(In thousands)				
Revenues:					
Product and licenses	$883,329	$875,807	$899,736	$7,522	$(23,929)
Software as a Service	816,436	731,292	651,562	85,144	79,730
License updates and maintenance	1,587,271	1,521,007	1,416,017	66,264	104,990
Professional Services	131,229	147,488	175,541	(16,259)	(28,053)
Total net revenues	$3,418,265	$3,275,594	$3,142,856	$142,671	$132,738

Product and licenses

Product and licenses revenue increased during 2016 when compared to 2015 primarily due to higher overall sales of our Workspace Services solutions of $8.3 million and Delivery Networking products of $7.1 million. These increases were partially offset by lower sales of our non-core products of $8.0 million as a result of our product portfolio rationalization as discussed in the Executive Summary Overview above. Product and licenses revenue decreased during 2015 when compared to 2014 primarily due to lower overall sales of our Workspace Services solutions of $21.2 million. We currently expect Product and licenses revenue to decrease when comparing the first quarter of 2017 to the first quarter of 2016.

Software as a Service

Software as a service revenue increased during 2016 compared to 2015 primarily due to increased sales of GoTo Business products of $54.3 million and increased sales of our Cloud Services products of $27.3 million. Software as a service revenue increased during 2015 compared to 2014 primarily due to increased sales of GoTo Business products of $51.4 million and increased sales of our Cloud Services products of $24.7 million. We currently expect our Software as a Service revenue, excluding the GoTo Business, to increase when comparing the first quarter of 2017 to the first quarter of 2016.

License updates and maintenance

Effective February 16, 2015, we introduced Software Maintenance across all Citrix software products and discontinued our existing Premier Support offering. As a result, we have experienced declines in Subscription Advantage and Premier Support revenues, with a corresponding increase in sales of our software maintenance offerings as customers adopt the new solution. Additionally, in 2017, our customers began migrating to the new Citrix Customer Success Services offering from the Subscription Advantage and Software Maintenance programs.

License updates and maintenance revenue increased during 2016 compared to 2015 primarily due to an increase in hardware and software maintenance revenues of $291.2 million, primarily driven by increased sales of maintenance revenues across our Workspace Services and Delivery Networking products, partially offset by a decrease in our Subscription Advantage product of $180.4 million and our technical and premier support of $44.6 million. License updates and maintenance revenue increased during 2015 compared to 2014 primarily due to an increase in hardware and software maintenance revenues of $155.5 million, primarily driven by increased sales of maintenance revenues across our Workspace Services and Delivery Networking products, partially offset by a decrease in our Subscription Advantage product of $44.0 million. The overall change when comparing 2016 to 2015 and 2015 to 2014 is a result of customers migrating to our new Software Maintenance offerings discussed above. We currently expect that License updates and maintenance revenue will increase when comparing the first quarter of 2017 to the first quarter of 2016.

Professional services

The decrease in Professional services revenue when comparing 2016 to 2015 was primarily due to decreased implementation services and product training and certification related to our Workspace Services solutions. The decrease in Professional services revenue when comparing 2015 to 2014 was primarily due to decreased product training and certification and implementation services related to our Workspace Services solutions. These results are due to the operational initiatives as discussed in the Executive Summary above. We currently expect Professional services revenue to decrease when comparing the first quarter of 2017 to the first quarter of 2016 due to changes to our field and channel strategies.

Deferred Revenue

Deferred revenues are primarily comprised of License updates and maintenance revenue from maintenance fees, which include software and hardware maintenance, our Subscription Advantage program and technical support. Deferred revenues also include SaaS revenue from annual service agreements for our online services and Professional services revenue primarily related to our consulting contracts.

Deferred revenues increased approximately $139.8 million as of December 31, 2016 compared to December 31, 2015 primarily due to a net increase in sales of our software maintenance offerings of $96.2 million and an increase in sales of our hardware maintenance offerings of $17.5 million. These changes were primarily related to our new Software Maintenance offering discussed in the license updates and maintenance revenue section above. We currently expect deferred revenue, excluding the GoTo Business, to increase in 2017.

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

International Revenues

International revenues (sales outside the United States) accounted for approximately 40.7% of our net revenues for the year ended December 31, 2016, 43.1% of our net revenues for the year ended December 31, 2015 and 45.2% of our net revenues for the year ended December 31, 2014. 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 11 to our consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2016.

Segment Revenues

Our revenues are derived from sales of Enterprise and Service Provider products which include Workspace Services solutions, Delivery Networking products, Cloud Services products and related License updates and maintenance and Professional services and sales of the GoTo Business, which are delivered as cloud-based SaaS, and include Communications Cloud and Workflow Cloud service offerings. The Enterprise and Service Provider and the GoTo Business segment constitute our two reportable segments. As part of our continued transformation, effective January 1, 2016, we reorganized a part of our business by creating a new Cloud Services product grouping that primarily includes the ShareFile product line. Prior to 2016, the ShareFile product line was included within our Workflow Cloud products under the GoTo Business segment. Management has changed how it views the business primarily due to operational initiatives announced in 2015, which include increased emphasis and investments in core enterprise products for secure and reliable application and data delivery. As a result, we realigned our Cloud Services products and services to the Enterprise and Service Provider segment effective January 1, 2016 in contemplation of the strategic shift and the separation of the GoTo Business. See Note 18 of our consolidated financial statements for additional information on the separation of the GoTo Business. We are currently evaluating our segment reporting and goodwill reporting units for 2017 as a result of these changes.

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

	Year Ended December 31,			Revenue Growth 2016 to 2015	Revenue Growth 2015 to 2014
	2016	2015	2014		
	(In thousands)				
Enterprise and Service Provider	$2,736,080	$2,646,154	$2,563,064	3.4 %	3.2 %
GoTo Business	682,185	629,440	579,792	8.4 %	8.6 %
Consolidated net revenues	$3,418,265	$3,275,594			