CITRIX SYSTEMS INC
Form 10-Q
August 07, 2012

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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 (State or other jurisdiction of incorporation or organization)	75-2275152 (IRS Employer Identification No.)
851 West Cypress Creek Road Fort Lauderdale, Florida (Address of principal executive offices)	33309 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 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

As of August 1, 2012 there were 186,965,376 shares of the registrant's Common Stock, $.001 par value per share, outstanding.

CITRIX SYSTEMS, INC.
Form 10-Q
For the Quarterly Period Ended June 30, 2012
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PART I: FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CITRIX SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2012	December 31, 2011
	(In thousands, except par value)	
Assets		
Current assets:		
Cash and cash equivalents	$961,840	$333,296
Short-term investments — available-for-sale	335,944	406,461
Accounts receivable, net of allowances of $4,639 and $3,925 at June 30, 2012 and December 31, 2011, respectively	404,212	484,431
Inventories, net	6,659	8,507
Prepaid expenses and other current assets	123,064	95,419
Current portion of deferred tax assets, net	43,957	44,916
Total current assets	1,875,676	1,373,030
Long-term investments — available-for-sale	410,369	737,844
Property and equipment, net	283,535	277,429
Goodwill	1,297,879	1,239,120
Other intangible assets, net	353,852	343,372
Long-term portion of deferred tax assets, net	45,059	67,479
Other assets	62,646	61,267
	$4,329,016	$4,099,541
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$61,709	$58,034
Accrued expenses and other current liabilities	226,152	223,136
Current portion of deferred tax liabilities, net	120	79,318
Current portion of deferred revenues	846,172	818,642
Total current liabilities	1,134,153	1,179,130
Long-term portion of deferred revenues	182,191	141,241
Long-term portion of deferred tax liabilities, net	54,721	20,247
Other liabilities	27,969	28,433
Commitments and contingencies		
Stockholders' equity:		
Preferred stock at $.01 par value: 5,000 shares authorized, none issued and outstanding	—	—
Common stock at $.001 par value: 1,000,000 shares authorized; 285,258 and 282,774 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	285	283
Additional paid-in capital	3,549,622	3,385,053
Retained earnings	2,371,744	2,211,471
Accumulated other comprehensive loss	(21,854)	(11,561)
	5,899,797	5,585,246
Less — common stock in treasury, at cost (98,535 and 96,960 shares at June 30, 2012 and December 31, 2011, respectively)	(2,969,815)	(2,854,756)
Total stockholders' equity	2,929,982	2,730,490

	$4,329,016	$4,099,541

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands, except per share information)			
Revenues:				
Product and licenses	$187,917	$171,326	$366,281	$321,586
Software as a service	125,510	106,479	246,243	206,251
License updates and maintenance	272,537	231,682	537,062	453,061
Professional services	29,246	21,303	55,119	40,780
Total net revenues	615,210	530,790	1,204,705	1,021,678
Cost of net revenues:				
Cost of product and license revenues	20,854	18,448	39,658	32,489
Cost of services and maintenance revenues	56,404	40,843	107,408	74,080
Amortization of product related intangible assets	17,100	12,542	33,635	25,241
Total cost of net revenues	94,358	71,833	180,701	131,810
Gross margin	520,852	458,957	1,024,004	889,868
Operating expenses:				
Research and development	110,028	91,374	213,650	181,922
Sales, marketing and services	262,139	211,396	510,596	416,940
General and administrative	61,299	56,660	121,155	107,063
Amortization of other intangible assets	5,194	3,937	15,661	7,446
Restructuring	—	—	—	24
Total operating expenses	438,660	363,367	861,062	713,395
Income from operations	82,192	95,590	162,942	176,473
Interest income	2,828	3,727	5,906	7,666
Other income, net	525	1,361	1,247	4,994
Income before income taxes	85,545	100,678	170,095	189,133
Income tax (benefit) expense	(6,461)	19,270	9,822	34,378
Consolidated net income	92,006	81,408	160,273	154,755
Less: Net loss attributable to non-controlling interest	—	536	—	692
Net income attributable to Citrix Systems, Inc.	$92,006	$81,944	$160,273	$155,447
Net income per share attributable to Citrix Systems, Inc. stockholders:				
Net income per share attributable to Citrix Systems, Inc. stockholders — basic	$0.49	$0.44	$0.86	$0.83
Net income per share attributable to Citrix Systems, Inc. stockholders — diluted	$0.49	$0.43	$0.85	$0.81
Weighted average shares outstanding:				
Basic	186,372	187,691	186,052	187,810
Diluted	189,279	191,412	189,082	191,636

See accompanying notes.

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

	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
	(In thousands)			
Consolidated net income	$92,006	$81,408	$160,273	$154,755
Other comprehensive income:				
Change in foreign currency translation adjustment	(11,802)	1,940	(9,850)	7,373
Available for sale securities:				
Change in net unrealized gains	1,023	1,460	2,457	1,611
Less: reclassification adjustment for net (gains) losses included in net income	(3,055)	165	(2,862)	655
Net change (net of tax effect)	(2,032)	1,625	(405)	2,266
Cash flow hedges:				
Change in unrealized gains	(4,378)	(6,454)	(2,344)	(4,237)
Less: reclassification adjustment for net losses included in net income	779	4,874	2,306	5,494
Net change (net of tax effect)	(3,599)	(1,580)	(38)	1,257
Other comprehensive (loss) income	(17,433)	1,985	(10,293)	10,896
Comprehensive income	74,573	83,393	149,980	165,651
Less: Comprehensive loss attributable to non-controlling interest	—	536	—	692
Comprehensive income attributable to Citrix Systems, Inc.	$74,573	$83,929	$149,980	$166,343

See accompanying notes.

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

	Six Months Ended June 30,	
	2012	2011
	(In thousands)	
Operating Activities		
Net income	$160,273	$154,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	49,296	32,687
Depreciation and amortization of property and equipment	46,049	40,018
Stock-based compensation expense	68,819	38,637
(Gain) loss on investments	(6,885)	655
Provision for doubtful accounts	386	(669)
Provision for product returns	6,437	2,222
Provision for inventory reserves	903	1,171
Tax effect of stock-based compensation	23,078	37,247
Excess tax benefit from exercise of stock options	(23,979)	(37,269)
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	186	(2,347)
Other non-cash items	548	1,193
Total adjustments to reconcile net income to net cash provided by operating activities	164,838	113,545
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	70,899	44,405
Inventories	945	(1,522)
Prepaid expenses and other current assets	(31,758)	(18,469)
Other assets	(814)	497
Deferred tax assets, net	14,920	(13,036)
Accounts payable	3,155	(8,938)
Accrued expenses and other current liabilities	5,008	(28,082)
Deferred revenues	68,480	43,288
Deferred tax liabilities, net	(44,724)	25,093
Other liabilities	(408)	9,989
Total changes in operating assets and liabilities, net of the effects of acquisitions	85,703	53,225
Net cash provided by operating activities	410,814	321,525
Investing Activities		
Purchases of available-for-sale investments	(550,002)	(684,332)
Proceeds from sales of available-for-sale investments	702,711	395,709
Proceeds from maturities of available-for-sale investments	245,133	312,007
Purchases of property and equipment	(51,247)	(59,456)
Proceeds from the sales of cost method investments	6,475	—
Purchases of cost method investments	(2,547)	(8,222)
Cash paid for acquisitions, net of cash acquired	(82,378)	(118,440)
Cash paid for licensing agreements and product related intangible assets	(12,000)	(7,487)
Net cash provided by (used in) investing activities	256,145	(170,221)
Financing Activities		
Proceeds from issuance of common stock under stock-based compensation plans	61,489	85,126
Repayment of acquired debt	(7,737)	(10,926)

Excess tax benefit from exercise of stock options	23,979	37,269
Purchase of non-controlling interest	—	(17,207)
Stock repurchases, net	(99,996)	(199,915)
Cash paid for tax withholding on vested stock awards	(15,062)	(12,052)
Other	1,050	(3,000)
Net cash used in financing activities	(36,277)	(120,705)
Effect of exchange rate changes on cash and cash equivalents	(2,138)	4,055
Change in cash and cash equivalents	628,544	34,654
Cash and cash equivalents at beginning of period	333,296	396,162
Cash and cash equivalents at end of period	$961,840	$430,816

See accompanying notes.

CITRIX SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
1. BASIS OF PRESENTATION
The accompanying unaudited condensed consolidated financial statements of Citrix Systems, Inc. (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. All adjustments, which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown, are of a normal recurring nature and have been reflected in the condensed consolidated financial statements and accompanying notes. The results of operations for the periods presented are not necessarily indicative of the results expected for the full year or for any future period partially because of the seasonality of the Company’s business. Historically, the Company’s revenue for the fourth quarter of any year is typically higher than the revenue for the first quarter of the subsequent year. The information included in these condensed consolidated financial statements should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in this report and the condensed consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.
The condensed consolidated financial statements of the Company include the accounts of its wholly-owned subsidiaries in the Americas, Europe, the Middle East and Africa (“EMEA”), Asia-Pacific and the Online Services division. All significant transactions and balances between the Company and its subsidiaries have been eliminated in consolidation. In addition, the Company presents non-controlling interests of less-than-wholly-owned subsidiaries within the equity section of its condensed consolidated financial statements in accordance with the authoritative guidance for the presentation and disclosure of non-controlling interests of a consolidated subsidiary. See Note 4 for more information regarding the Company’s non-controlling interests.
Reclassifications
During the first quarter of 2012, the Company performed a review of the historical manner of presentation of certain of its revenue categories and adopted a revised presentation, which the Company believes is more comparable to those presented by other companies in the industry and better reflects the Company's evolving product and service offerings. As a result, technical support, hardware maintenance and software updates revenues, which were previously presented in Technical services and License updates are classified together as License updates and maintenance. A corresponding change was made to rename Cost of services revenues to Cost of services and maintenance revenues; however, there was no change in classification. Product training and certification and consulting services, which were previously presented in Technical services, are classified together as Professional services. Product licenses has been renamed to Product and licenses to more appropriately describe its composition of both software and hardware, however, there was no change in classification. The composition and classification of Software as a service remained unchanged. This change in manner of presentation will not affect the Company's total net revenues, total cost of net revenues or gross margin. Conforming changes have been made for all periods presented, as follows (in thousands):

		Three Months Ended June 30, 2011		
As Previously Reported		Amount Reclassified	As Reported Herein	
Revenues:			Revenues:	
License updates	$183,875	$47,807	License updates and maintenance [2]	$231,682
Technical services [1]	69,110	(47,807)	Professional services [3]	21,303
Total	$252,985	$—	Total	$252,985

Six Months Ended June 30, 2011

As Previously Reported		Amount Reclassified		As Reported Herein	
Revenues:				Revenues:	
License updates	$361,751	$91,310		License updates and maintenance [2]	$453,061
Technical services [1]	132,090	(91,310	)	Professional services [3]	40,780
Total	$493,841	$—		Total	$493,841

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(1) Technical services revenue was comprised of hardware maintenance, consulting services, product training and certification and technical support.

(2) License updates and maintenance is comprised of license updates, hardware and software maintenance and technical support.

(3) Professional services is comprised of consulting services and product training and certification.

Additionally, during the first quarter of 2012, the Company revised its methodology for allocating certain information technology ("IT") support costs to more closely align these costs to the employees directly utilizing the related assets and services and to reflect how management assesses the cost of headcount. As a result, certain IT support costs have been reclassified from General and administrative expenses to Cost of services and maintenance revenues, Research and development expenses and Sales, marketing and services expenses based on the headcount in each of these functional areas. This change in presentation will not affect the Company's income from operations or cash flows. Conforming changes have been made for all prior periods presented, as follows (in thousands):

		Three Months Ended June 30, 2011		
As Previously Reported		Amount Reclassified	As Reported Herein	
Cost of services revenues	$37,906	$2,937	Cost of services and maintenance revenues	$40,843
Research and development	83,312	8,062	Research and development	91,374
Sales, marketing and services	199,359	12,037	Sales, marketing and services	211,396
General and administrative	79,696	(23,036)	General and administrative	56,660
Total	$400,273	$—	Total	$400,273

		Six Months Ended June 30, 2011		
As Previously Reported		Amount Reclassified	As Reported Herein	
Cost of services revenues	$68,572	$5,508	Cost of services and maintenance revenues	$74,080
Research and development	166,030	15,892	Research and development	181,922
Sales, marketing and services	393,602	23,338	Sales, marketing and services	416,940
General and administrative	151,801	(44,738)	General and administrative	107,063
Total	$780,005	$—	Total	$780,005

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. While the Company believes that such estimates are fair when considered in conjunction with the condensed consolidated financial statements and accompanying notes, the actual amount of such estimates, when known, will vary from these estimates.

Investments

Short-term and long-term investments at June 30, 2012 and December 31, 2011 primarily consist of agency securities, corporate securities, municipal securities and government securities. Investments classified as available-for-sale are stated at fair value with unrealized gains and losses, net of taxes, reported in Accumulated other comprehensive loss. The Company classifies its available-for-sale investments as current and non-current based on their actual remaining time to maturity. The Company does not recognize changes in the fair value of its available-for-sale investments in income unless a decline in value is considered other-than-temporary in accordance with the authoritative guidance.

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

Inventory

Inventories are stated at the lower of cost or market on a standard cost basis, which approximates actual cost. The Company's inventories as of June 30, 2012 and December 31, 2011, primarily consist of finished goods.

Revenue Recognition

Net revenues include the following categories: Product and licenses, Software as a service, License updates and maintenance and Professional services. Product and license revenues primarily represent fees related to the licensing of the Company's software and hardware appliance products. These revenues are reflected net of sales allowances, cooperative advertising agreements, partner incentive programs and provisions for returns. Shipping charges billed to customers are included in Product and license revenue and the related shipping costs are included in Cost of product and license revenue. Software as a service ("SaaS") revenues consist primarily of fees related to online service agreements, which are recognized ratably over the contract term, which is typically 12 months. In addition, Software as a service revenues may also include set-up fees, which are recognized ratably over the contract term or the expected customer life, whichever is longer. License updates and maintenance revenues consist of fees related to the Subscription Advantage program and maintenance fees, which include technical support and hardware and software maintenance. The Company licenses many of its virtualization products bundled with a one year contract for its Subscription Advantage program. Subscription Advantage is a renewable program that provides subscribers with immediate access to software upgrades, enhancements and maintenance releases when and if they become available during the term of the contract. Subscription Advantage and maintenance fees are recognized ratably over the term of the contract, which is typically 12 to 24 months. The Company capitalizes certain third-party commissions related to Subscription Advantage renewals. The capitalized commissions are amortized to Sales, marketing and services expense at the time the related deferred revenue is recognized as revenue. Hardware and software maintenance and support contracts are typically sold separately. Professional services revenues are comprised of fees from consulting services related to the implementation of the Company's products and fees from product training and certification, which are recognized as the services are provided.

The Company recognizes 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 the Company has no remaining obligations; the fee is fixed or determinable; and collectability is probable.

The majority of the Company's product and license revenue consists of revenue from the sale of stand-alone software products. Stand-alone software sales generally include a perpetual license to the Company's software and is subject to the industry specific software revenue recognition guidance. In accordance with this guidance, the Company allocates revenue to license updates related to its stand-alone software and any other undelivered elements of the arrangement based on vendor specific objective evidence ("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.

The Company's hardware appliances contain software components that are essential to the overall functionality of the products. Effective January 1, 2011, the Company adopted amended accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of industry-specific software revenue recognition guidance on a prospective basis for new and materially modified arrangements originating after December 31, 2010.

For the Company's non-software deliverables, it allocates the arrangement consideration based on the relative selling price of the deliverables. For the Company's hardware appliances, it uses estimated selling price ("ESP") as its selling price. For the Company's hardware maintenance and professional services, it generally uses VSOE as its selling price. When the Company is unable to establish selling price using VSOE for its hardware maintenance and professional services, the Company uses ESP in its allocation of arrangement consideration.

The Company's SaaS products are considered service arrangements per the authoritative guidance; accordingly, the Company follows the provisions of Securities and Exchange Commission Staff Accounting Bulletin ("SAB") No. 104, Revenue Recognition, when accounting for these service arrangements. Generally, the Company’s SaaS is sold separately and not bundled with the Enterprise division’s products and services.

In the normal course of business, the Company is not obligated to accept product returns from its distributors under any conditions, unless the product is defective in manufacture. The Company establishes provisions for estimated returns, as well as other sales allowances, concurrently with the recognition of revenue. Allowances for estimated product returns amounted to approximately $2.1 million and $1.4 million at June 30, 2012 and December 31, 2011, respectively. The Company also records estimated reductions to revenue for customer programs and incentive offerings, including volume-based incentives. The Company could take actions to increase its customer incentive offerings, which could result in an incremental reduction to revenue at the time the incentive is offered.

Foreign Currency

The functional currency for all of the Company’s wholly-owned foreign subsidiaries in its Enterprise division is the U.S. dollar. Monetary assets and liabilities of such subsidiaries are remeasured into U.S. dollars at exchange rates in effect at the balance sheet date, and revenues and expenses are remeasured at average rates prevailing during the year. The functional currency of the Company’s wholly-owned foreign subsidiaries of its Online Services division is the currency of the country in which each subsidiary is located. The Company translates assets and liabilities of these foreign subsidiaries at exchange rates in effect at the balance sheet date. The Company includes accumulated net translation adjustments in equity as a component of Accumulated other comprehensive loss. Foreign currency transaction gains and losses are the result of exchange rate changes on transactions denominated in currencies other than the functional currency, including U.S. dollars. The remeasurement of those foreign currency transactions is included in determining net income or loss for the period of exchange. See Note 9 for information on the Company's Enterprise and Online Services divisions.

Accounting for Stock-Based Compensation Plans

The Company has various stock-based compensation plans for its employees and outside directors and accounts for stock-based compensation arrangements in accordance with the authoritative guidance, which requires the Company to measure and record compensation expense in its condensed consolidated financial statements using a fair value method. See Note 7 for further information regarding the Company’s stock-based compensation plans.

3. NET INCOME PER SHARE ATTRIBUTABLE TO CITRIX SYSTEMS, INC. STOCKHOLDERS

Net income per share attributable to Citrix Systems, Inc. stockholders - basic is calculated by dividing net income attributable to Citrix Systems, Inc. stockholders by the weighted-average number of common shares outstanding during each period. Net income per share attributable to Citrix Systems, Inc. stockholders - diluted is computed using the weighted average number of common and dilutive common share equivalents outstanding during the period. Dilutive common share equivalents consist of shares issuable upon the exercise or settlement of stock awards (calculated using the treasury stock method) during the period they were outstanding.

The following table sets forth the computation of basic and diluted net income per share attributable to Citrix Systems, Inc. stockholders (in thousands, except per share information):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Numerator:				
Net income attributable to Citrix Systems, Inc. stockholders	$92,006	$81,944	$160,273	$155,447
Denominator:				
Denominator for basic earnings per share — weighted-average shares outstanding	186,372	187,691	186,052	187,810
Effect of dilutive employee stock awards	2,907	3,721	3,030	3,826
Denominator for diluted earnings per share — weighted-average shares outstanding	189,279	191,412	189,082	191,636
Net income per share attributable to Citrix Systems, Inc. stockholders — basic	$0.49	$0.44	$0.86	$0.83
Net income per share attributable to Citrix Systems, Inc. stockholders — diluted	$0.49	$0.43	$0.85	$0.81

Anti-dilutive weighted-average shares	3,326	1,706	4,103	1,290

4. ACQUISITIONS

2012 Acquisitions

Podio

In April 2012, the Company acquired all of the issued and outstanding securities of Podio ApS (“Podio”), a privately-held provider of a cloud-based collaborative work platform. Podio became part of the Company's Online Services division and expands the Company's offerings of integrated cloud-based support for team-based collaboration. The total consideration for this transaction was approximately $43.6 million, net of $1.7 million of cash acquired, and was paid in cash. Transaction costs associated with the acquisition were approximately $0.5 million, all of which the Company expensed during the six months ended June 30, 2012 and are included in General and administrative expense in the accompanying condensed consolidated statements of income. There were no transactions costs associated with the acquisition during the three months ended June 30, 2012. In addition, in connection with the acquisition, the Company assumed non-vested stock units which were converted into the right to receive up to 127,668 shares of the Company's common stock, for which the vesting period reset fully upon the closing of the transaction.

2012 Other Acquisitions

During the first quarter of 2012, the Company acquired all of the issued and outstanding securities of a privately-held company for total cash consideration of approximately $24.6 million, net of $0.6 million of cash acquired. This target's business became part of the Company’s Enterprise division. Transaction costs associated with the acquisition were approximately $0.5 million, of which the Company expensed $0.4 million during the six months ended June 30, 2012, and are included in General and administrative expense in the accompanying condensed consolidated statements of income. There were no transactions costs associated with the acquisition during the three months ended June 30, 2012. In addition, in connection with this acquisition, the Company assumed non-vested stock units which were converted into the right to receive up to 13,481 shares of the Company's common stock and assumed certain stock options which are exercisable for 12,017 shares of the Company's common stock, for which the vesting period reset fully upon the closing of the transaction.

During the second quarter of 2012, the Company acquired all of the issued and outstanding securities of two privately-held companies for a total cash consideration of approximately $15.4 million, net of $0.2 million of cash acquired. The targets' businesses became part of the Company's Enterprise division. Transaction costs associated with the acquisitions were approximately $0.4 million, of which the Company expensed $0.2 million and $0.4 million during the three and six months ended June 30, 2012, respectively, and are included in General and administrative expense in the accompanying condensed consolidated statements of income. In addition, in connection with the acquisitions, the Company assumed non-vested stock units which were converted into the right to receive up to 66,459 shares of the Company's common stock, for which the vesting period reset fully upon the closing of each respective transaction.

The three acquisitions discussed in this section will collectively be referred to herein as the "2012 Other Acquisitions".

Purchase Accounting for the Acquisitions in 2012

The purchase prices for the companies acquired in the first six months of 2012, which include Podio and the 2012 Other Acquisitions (collectively, the "2012 Acquisitions"), were allocated to the respective acquired company's net tangible and intangible assets based on their estimated fair values as of the date of the acquisition. The allocations of the total purchase prices are summarized below (in thousands):

	Podio Purchase Price Allocation	Asset Life	2012 Other Acquisitions Purchase Price Allocation	Asset Life
Current assets	$1,906		$1,801	
Other assets	33		75	
Property and equipment	—		209	Various
Intangible assets	24,600	4-5 years	25,403	3-5 years
Goodwill	25,503	Indefinite	42,326	Indefinite

Assets acquired	52,042	69,814
Current liabilities assumed	(609)	(6,946)
Long-term liabilities assumed	—	(7,760)
Deferred tax liabilities, non-current	(6,150)	(10,031)
Net assets acquired	$45,283	$45,077

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Current assets acquired in connection with the 2012 Acquisitions consisted primarily of cash and accounts receivable. Current liabilities assumed in connection with the 2012 Acquisitions consisted primarily of short-term payables and other accrued expenses. Long-term liabilities assumed in connection with the 2012 Acquisitions consisted of other long-term liabilities and long-term debt which was paid in full subsequent to the respective acquisition date. The Company continues to evaluate certain income tax assets and liabilities related to the 2012 Acquisitions. Goodwill related to the Podio acquisition was assigned to the Company's Online Services division and the goodwill related to the 2012 Other Acquisitions was assigned to the Company's Enterprise division. The goodwill related to the 2012 Acquisitions is not deductible for tax purposes. See Note 9 for segment information. The goodwill amounts are comprised primarily of expected synergies from combining operations and other intangible assets that do not qualify for separate recognition.

Revenues from Podio are included in the Company's Online Services division's revenue. Revenues from the 2012 Other Acquisitions are included in the Company's Enterprise division's revenue. The Company has included the effect of the 2012 Acquisitions in its results of operations prospectively from the date of each acquisition. The effect of the 2012 Acquisitions was not material to the Company's consolidated results for the periods presented, accordingly, pro forma financial disclosures have not been presented.

Identifiable intangible assets acquired in connection with the 2012 Acquisitions (in thousands) and their weighted-average lives are as follows:

	Podio	Asset Life	2012 Other Acquisitions	Asset Life
Customer relationships	$3,900	4.0 years	$2,100	3.0 years
Core and product technologies	20,700	5.0 years	23,303	4.5 years
Total	$24,600		$25,403	

2011 Acquisitions

Netviewer AG

In February 2011, the Company acquired all of the issued and outstanding securities of Netviewer AG (the “Netviewer Acquisition” or “Netviewer”), a privately-held European SaaS vendor in collaboration and IT services. Netviewer became part of the Company’s Online Services division and the acquisition enables the extension of its Online Services business in Europe. The total consideration for this transaction was approximately $107.5 million, net of $6.3 million of cash acquired, and was paid in cash. Transaction costs associated with the acquisition were approximately $3.1 million, of which the Company expensed $0.4 million and $0.8 million during the three and six months ended June 30, 2011, respectively, and are included in General and administrative expense in the accompanying condensed consolidated statements of income. The Company recorded approximately $98.7 million of goodwill, which is not deductible for tax purposes, and acquired $28.8 million of identifiable intangible assets, of which $3.2 million is related to product related intangible assets and $25.6 million is related to other intangible assets. In addition, in connection with the acquisition, the Company assumed non-vested stock units, which were converted into the right to receive up to 99,100 shares of the Company's common stock, for which the vesting period reset fully upon the closing of the transaction.

Cloud.com

In July 2011, the Company acquired all of the issued and outstanding securities of Cloud.com, Inc. (the "Cloud.com Acquisition" or "Cloud.com"), a privately-held provider of software infrastructure platforms for cloud providers. Cloud.com became part of the Company’s Enterprise division and the acquisition further establishes the Company as a leader in infrastructure for the growing cloud provider market. The total consideration for this transaction was approximately $158.8 million, net of $5.6 million of cash acquired, and was paid in cash. Transaction costs associated with the acquisition were approximately $2.9 million, of which the Company expensed $0.6 million during the three and six months ended June 30, 2011 and are included in General and administrative expense in the accompanying condensed consolidated statements of income. The Company recorded approximately $100.6 million of goodwill, which is not deductible for tax purposes, and acquired $89.0 million of identifiable intangible assets, of which $58.0 million is related to product related intangible assets and $31.0 million is related to other intangible assets. In addition, in connection with the acquisition, the Company assumed non-vested stock units which were converted into the right to receive up to 288,742 shares of the Company's common stock and assumed certain stock options which are exercisable for 183,780 shares of the Company's common stock, for which the vesting period reset fully upon the closing of the transaction.

ShareFile

In October 2011, the Company acquired all of the issued and outstanding securities of Novel Labs, Inc. (d/b/a "ShareFile"), a privately-held provider of secure data sharing and collaboration solutions. ShareFile initially became part of the Company's Enterprise division, and in the first quarter of 2012 it was transferred to the Company's Online Services division. The total consideration for this transaction was approximately $54.0 million, net of $1.7 million of cash acquired, and was paid in cash. Transaction costs associated with the acquisition were approximately $0.7 million. The Company recorded approximately $49.4 million of goodwill, which is not deductible for tax purposes, and acquired $28.2 million of identifiable intangible assets, of which $16.0 million is related to product related intangible assets and $12.2 million is related to other intangible assets. There were no transaction costs associated with the acquisition during the three and six months ended June 30, 2011. In addition, in connection with the acquisition, the Company assumed non-vested stock units which were converted into the right to receive up to 180,697 shares of the Company's common stock and assumed certain stock options which are exercisable for 390,775 shares of the Company's common stock, for which the vesting period reset fully upon the closing of the transaction.

App-DNA

In November 2011, the Company acquired all of the issued and outstanding securities of App-DNA, a privately-held company that specializes in application migration and management. App-DNA became part of the Company's Enterprise division. The total consideration for this transaction was approximately $91.3 million, net of $3.2 million of cash acquired, and was paid in cash. Transaction costs associated with the acquisition were approximately $1.3 million. The Company recorded approximately $58.2 million of goodwill, which is not deductible for tax purposes, and acquired $44.8 million of identifiable intangible assets, of which $36.7 million is related to product related intangible assets and $8.1 million is related to other intangible assets. There were no transaction costs associated with the acquisition during the three and six months ended June 30, 2011. In addition, in connection with the acquisition, the Company assumed non-vested stock units, which were converted into the right to receive up to 114,487 shares of the Company's common stock, for which the vesting period reset fully upon the closing of the transaction.

2011 Other Acquisitions

During the first quarter of 2011, the Company acquired certain assets of a wholly-owned subsidiary of a privately-held company (the "2011 Other Acquisition") for total cash consideration of approximately $10.5 million. The Company accounted for this acquisition as a business combination in accordance with the authoritative guidance and it became part of the Company's Enterprise division, thereby expanding the Company's solutions portfolio for service providers and developing integrations with the Company's cloud application delivery solutions.

In August 2011, the Company acquired all of the issued and outstanding securities of RingCube Technologies, Inc. (the "RingCube Acquisition" or "RingCube"), a privately-held company that specializes in user personalization technology for virtual desktops. RingCube became part of the Company's Enterprise division and the acquisition further solidifies the Company's position in desktop virtualization. The total consideration for this transaction was approximately $32.2 million, net of $0.5 million of cash acquired, and was paid in cash. Transaction costs associated with the acquisition were approximately $0.6 million, of which the Company expensed $0.1 million during the three and six months ended June 30, 2011 and are included in General and administrative expense in the accompanying condensed consolidated statements of income. In addition, in connection with the RingCube acquisition, the Company assumed non-vested stock units which were converted into the right to receive up to 58,439 shares of the Company's common stock, for which the vesting period reset fully upon the closing of the transaction.

In connection with the 2011 Other Acquisition and the RingCube Acquisition, the Company recorded approximately $15.6 million of goodwill, which is not deductible for tax purposes, and acquired $30.6 million of identifiable intangible assets, of which $26.0 million is related to product related intangible assets and $4.6 million is related to other intangible assets.

The Company continues to evaluate certain tax assets and liabilities related to the acquisitions it completed during 2011. See Note 9 for more information regarding the Company's segments.

Purchase of Non-Controlling Interest
Kaviza Inc.
The Company presents non-controlling interests of less-than-wholly-owned subsidiaries within the equity section of its condensed consolidated financial statements in accordance with the authoritative guidance for the presentation and disclosure of non-controlling interests of consolidated subsidiaries. In May 2011, the Company acquired all of the non-controlling interest of Kaviza Inc. ("Kaviza"), a provider of virtual desktop infrastructure solutions, for $17.2 million. As a result of this transaction, the Company has obtained a 100% interest in this subsidiary. In accordance with the authoritative guidance, the excess of the proceeds paid over the carrying amount of the non-controlling interest of Kaviza has been reflected as a reduction of additional paid-in capital. In addition, in connection with the purchase of the non-controlling interest of Kaviza, the Company assumed non-vested stock units which were converted into the right to receive up to 88,687 shares of the Company's common stock and assumed certain stock options which are exercisable for 33,301 shares of the Company's common stock, which were assumed with existing vesting schedules.
Subsequent Events
In July 2012, the Company acquired all of the issued and outstanding securities of Bytemobile, Inc. ("Bytemobile"), a privately-held provider of data and video optimization solutions for mobile network operators. Bytemobile will become part of the Company's Enterprise division and expands the Company's business into the mobile telecommunications space. The total preliminary consideration for this transaction was approximately $401.7 million, net of $4.3 million of cash acquired, and was paid in cash. Transaction costs associated with the acquisition were approximately $2.2 million, all of which the Company expensed during the three and six months ended June 30, 2012 and are included in General and administrative expense in the accompanying condensed consolidated statements of income.
5. INVESTMENTS
Available-for-sale Investments
Investments in available-for-sale securities at fair value were as follows for the periods ended (in thousands):

	June 30, 2012				December 31, 2011			
Description of the Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Agency securities	$344,601	$2,495	$(55)	$347,041	$641,997	$4,506	$(279)	$646,224
Corporate securities	362,712	648	(209)	363,151	392,365	618	(1,190)	391,793
Municipal securities	29,112	20	(5)	29,127	80,004	57	(35)	80,026
Government securities	6,875	119	—	6,994	26,056	206	—	26,262
Total	$743,300	$3,282	$(269)	$746,313	$1,140,422	$5,387	$(1,504)	$1,144,305

The change in net unrealized gains (losses) on available-for-sale securities recorded in Other comprehensive (loss) income includes unrealized gains (losses) that arose from changes in market value of specifically identified securities that were held during the period, gains (losses) that were previously unrealized, but have been recognized in current period net income due to sales, as well as prepayments of available-for-sale investments purchased at a premium. This reclassification has no effect on total comprehensive income or equity and was immaterial for all periods presented.
For the three and six months ended June 30, 2012, the Company received proceeds from sales of available-for-sale investments of $598.5 million and $702.7 million, respectively, and for the three and six months ended June 30, 2011, it received proceeds from the sales of available-for-sale investments of $215.3 million and $395.7 million, respectively. For the three and six months ended June 30, 2012, the Company had realized gains on the sales of available-for-sale investments of $3.5 million. For the three and six months ended June 30, 2012, the Company had realized losses on available-for-sale investments of $0.4 million and $0.6 million, respectively, primarily related to

prepayments at par of securities purchased at a premium. For the three and six months ended June 30, 2011, the Company had realized gains on the sales of available-for-sale investments of $0.3 million and $0.4 million, respectively. For the three and six months ended June 30, 2011, the Company had realized losses on available-for-sale investments of $0.4 million and $1.1 million, respectively, primarily related to prepayments at par of securities purchased at a premium. All realized gains and losses related to the sales of available-for-sale investments are included in other income, net, in the accompanying condensed consolidated statements of income.

The average remaining maturities of the Company’s short-term and long-term available-for-sale investments at June 30, 2012 were approximately five months and six years, respectively.

Unrealized Losses on Available-for-Sale Investments

The gross unrealized losses on the Company’s available-for-sale investments that are not deemed to be other-than-temporarily impaired were $0.3 million and $1.5 million as of June 30, 2012 and December 31, 2011, respectively. The decrease in gross unrealized losses when comparing June 30, 2012 to December 31, 2011 was primarily due to changes in interest rates. Because the Company does not intend to sell any of its investments in an unrealized loss position and it is more likely than not that it will not be required to sell the securities before the recovery of its amortized cost basis, which may not occur until maturity, it does not consider the securities to be other-than-temporarily impaired.

Cost Method Investments

The Company held direct investments in privately-held companies of approximately $28.4 million and $32.2 million as of June 30, 2012 and December 31, 2011, respectively, which are accounted for based on the cost method and are included in Other assets in the accompanying condensed consolidated balance sheets. The Company periodically reviews these investments for impairment. If the Company determines that an other-than-temporary impairment has occurred, it will write-down the investment to its fair value.

6. FAIR VALUE MEASUREMENTS

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

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

Available-for-sale securities included in Level 2 are valued utilizing inputs obtained from an independent pricing service (the “Service”) which uses quoted market prices for identical or comparable instruments rather than direct observations of quoted prices in active markets. The Service gathers observable inputs for all of the Company’s fixed income securities from a variety of industry data providers including, for example, large custodial institutions and other third-party sources. Once the observable inputs are gathered by the Service, all data points are considered and an average price is determined. The Service’s providers utilize a variety of inputs to determine their quoted prices. These inputs may include interest rates, known historical trades, yield curve information, benchmark data, prepayment speeds, credit quality and broker/dealer quotes. Substantially all of the Company’s available-for-sale investments are valued utilizing inputs obtained from the Service and accordingly are categorized as Level 2 in the table below. The Company periodically independently assesses the pricing obtained from the Service and historically has not adjusted the Service's pricing as a result of this assessment. Available-for-sale securities are included in Level 3 when relevant observable inputs for a security are not available.

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	As of June 30, 2012	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets:				
Cash and cash equivalents:				
Money market funds	$710,136	$ 710,136	$—	$—
Corporate securities	37,739	—	37,739	—
Agency securities	500	—	500	—
Municipal securities	7,200	—	7,200	—
Cash	206,265	206,265	—	—
Available-for-sale securities:				
Agency securities	347,041	—	347,041	—
Corporate securities	363,151	—	359,229	3,922
Municipal securities	29,127	—	29,127	—
Government securities	6,994	—	6,994	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	1,955	—	1,955	—
Total assets	$1,710,108	$ 916,401	$ 789,785	$ 3,922
Accrued expenses and other current liabilities:				
Foreign currency derivatives	7,706	—	7,706	—
Total liabilities	$7,706	$—	$ 7,706	$—

The Company’s fixed income available-for-sale security portfolio generally consists of high quality, investment grade securities from diverse issuers with a minimum credit rating of A-/A3 and a weighted average credit rating of AA/Aa2. The Company values these securities based on pricing from the Service, whose sources may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value, and accordingly, the Company classifies all of its fixed income available-for-sale securities as Level 2.

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

The Company has invested in convertible debt securities of certain early-stage entities that are classified as available-for-sale investments. As quoted prices in active markets or other observable inputs were not available for these investments, in order to measure them at fair value, the Company utilized a discounted cash flow model using a discount rate reflecting the market risk inherent in holding securities of an early-stage enterprise, adjusted by the probability-weighted exit possibilities associated with the convertible debt securities. Typically the discount rate used by the Company in measuring the fair value of investments in convertible debt securities of certain early-stage entities is commensurate with the nature and size of these entities. This methodology required the Company to make assumptions that were not directly or indirectly observable regarding the fair value of the convertible debt securities; accordingly it is a Level 3 valuation and is included in the table below. See Note 5 for more information regarding the Company’s available-for-sale investments.

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

	Investments (in thousands)
Balance at December 31, 2011	$3,696

Purchases of Level 3 securities	2,367
Transfers out of Level 3	(2,141)
Balance at June 30, 2012	$3,922

Transfers out of Level 3 relate to certain of the Company's investments in convertible debt securities of early-stage entities that were classified as available-for-sale investments to cost method investments upon conversion to equity ownership, which are included in Other assets in the accompanying condensed consolidated balance sheets.

Additional Disclosures Regarding Fair Value Measurements

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

7. STOCK-BASED COMPENSATION

The Company’s stock-based compensation program is a long-term retention program that is intended to attract and reward talented employees and align stockholder and employee interests. As of June 30, 2012, the Company had two stock-based compensation plans under which it was granting stock options and non-vested stock units. The Company is currently granting stock-based awards from its Amended and Restated 2005 Equity Incentive Plan (as amended, the “2005 Plan”) and its Amended and Restated 2005 Employee Stock Purchase Plan (the “2005 ESPP”). In connection with certain of the Company’s acquisitions, the Company has assumed certain plans from acquired companies. The Company’s Board of Directors has provided that no new awards will be granted under the Company’s acquired stock plans. Awards previously granted under the Company's superseded and expired stock plans that are still outstanding typically expire ten years from the date of grant and will continue to be subject to all the terms and conditions of such plans, as applicable. The Company’s superseded and expired stock plans include the Amended and Restated 1995 Stock Plan, Second Amended and Restated 2000 Director and Officer Stock Option and Incentive Plan and Second Amended and Restated 1995 Non-Employee Director Stock Option Plan.

Under the terms of the 2005 Plan, the Company is authorized to grant incentive stock options (“ISOs”), non-qualified stock options (“NSOs”), non-vested stock, non-vested stock units, stock appreciation rights (“SARs”), and performance units and to make stock-based awards to full and part-time employees of the Company and its subsidiaries or affiliates, where legally eligible to participate, as well as consultants and non-employee directors of the Company. Currently, the 2005 Plan provides for the issuance of a maximum of 48,600,000 shares of common stock of which 5,500,000 shares were authorized by the Company's Board of Directors in February 2012 and subsequently approved by its stockholders in May 2012. Under the 2005 Plan, ISOs must be granted at exercise prices no less than fair market value on the date of grant, except for ISOs granted to employees who own more than 10% of the Company’s combined voting power, for which the exercise prices must be no less than 110% of the fair market value at the date of grant. NSOs and SARs must be granted at no less than fair market value on the date of grant, or in the case of SARs in tandem with options, at the exercise price of the related option. Non-vested stock awards may be granted for such consideration in cash, other property or services, or a combination thereof, as determined by the Company’s Compensation Committee of its Board of Directors. All stock-based awards, other than certain long-term incentive awards discussed below, are exercisable or issuable upon vesting. The Company’s policy is to recognize compensation cost for awards with only service conditions and a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. As of June 30, 2012, there were 32,025,718 shares of common stock reserved for issuance pursuant to the Company’s stock-based compensation plans and the Company had authorization under its 2005 Plan to grant 19,302,687 additional stock-based awards.

Under the 2005 ESPP, all full-time and certain part-time employees of the Company are eligible to purchase common stock of the Company twice per year at the end of a six-month payment period (a “Payment Period”). During each Payment Period, eligible employees who so elect may authorize payroll deductions in an amount no less than 1% nor greater than 10% of his or her base pay for each payroll period in the Payment Period. At the end of each Payment Period, the accumulated deductions are used to purchase shares of common stock from the Company up to a maximum of 12,000 shares for any one employee during a Payment Period. Shares are purchased at a price equal to 85% of the fair market value of the Company’s common stock on the last business day of a Payment Period. Employees who, after exercising their rights to purchase shares of common stock in the 2005 ESPP, would own shares representing 5% or more of the voting power of the Company’s common stock, are ineligible to participate under the 2005 ESPP. The 2005 ESPP provides for the issuance of a maximum of 10,000,000 shares of common stock. As of June 30, 2012, 2,395,553 shares had been issued under the 2005 ESPP. The Company recorded stock-based compensation costs related to the 2005 ESPP of $0.9 million and $1.9 million for the three and six months ended

June 30, 2012, respectively.

Stock-Based Compensation

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

	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended
Income Statement Classifications	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Cost of services and maintenance revenues	$ 507	$ 396	$957	$664
Research and development	14,055	6,181	25,199	11,866
Sales, marketing and services	13,307	7,152	23,277	13,184
General and administrative	10,393	7,024	19,386	12,923
Total	$ 38,262	$ 20,753	$68,819	$38,637

Stock Options

Stock options granted under the 2005 Plan typically have a five-year life and vest over three years, with 33.3% of the shares underlying the option vesting on the first anniversary of the date of grant and the remainder of the underlying shares vesting in equal monthly installments at a rate of 2.78% thereafter (the "Standard Vesting Rate"). The Company also assumes stock options from certain of its acquisitions for which the vesting period is typically reset to vest over three years at the Standard Vesting Rate. See Note 4 for more information related to acquisitions. The Company currently uses the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company’s stock price, as well as assumptions regarding a number of complex and subjective variables. These variables include the Company’s expected stock price, volatility over the term of the awards, actual employee exercise behaviors, risk-free interest rate and expected dividends. For purposes of valuing stock options, the Company determined the expected volatility factor by considering the implied volatility in two-year market-traded options of the Company’s common stock based on third party volatility quotes in accordance with the provisions of SAB No. 107, Share Based Payment. The Company’s decision to use implied volatility was based upon the availability of actively traded options on the Company’s common stock and its assessment that implied volatility is more representative of future stock price trends than historical volatility. The approximate risk free interest rate was based on the implied yield available on U.S. Treasury zero-coupon issues with remaining terms equivalent to the Company’s expected terms on stock options. The expected term of stock options was based on the historical employee exercise patterns. The Company also periodically analyzes its historical pattern of option exercises based on certain demographic characteristics and determined that there were no meaningful differences in option exercise activity based on the demographic characteristics. The Company does not intend to pay dividends on its common stock in the foreseeable future. Accordingly, the Company used a dividend yield of zero in its option pricing model.

The weighted average fair value of stock options granted during the three months ended June 30, 2012 was $27.57. The total intrinsic value of options exercised during the three and six months ended June 30, 2012 was $38.0 million and $77.2 million, respectively. The intrinsic value is calculated as the difference between the market value on the date of exercise and the exercise price of the shares. As of June 30, 2012, there was $92.6 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 1.93 years.

The assumptions used to value option grants under the 2005 Plan are as follows:

	Three Months Ended June 30, 2012		Three Months Ended June 30, 2011		Six Months Ended June 30, 2012		Six Months Ended June 30, 2011	
Expected volatility factor	0.41		0.38		0.38 - 0.41		0.38 - 0.39	
Approximate risk free interest rate	0.68	%	1.03	%	0.65% - 0.68%		1.03% - 1.10%	
Expected term (in years)	3.91		3.27		3.91		3.27	
Expected dividend yield	0	%	0	%	0	%	0	%

Non-vested Stock Units

Performance Stock Units

The Company may award senior level employees non-vested performance stock units granted under the 2005 Plan. For 2011, as in prior years, the number of non-vested stock units underlying each award was determined following completion of the one year performance period applicable to the award and was based on achievement of a specific corporate financial performance goal determined at the time of the award. If the performance goal was less than 90% attained, then no non-vested stock units would have been issued pursuant to the authorized award. For performance at and above 90%, the number of non-vested stock units issued was based on a graduated slope, with the maximum number of non-vested stock units issuable pursuant to the award capped at 125% of the base number of non-vested stock units set forth in the award agreement. The Company was required to estimate the attainment expected to be achieved related to the defined performance goals and the number of non-vested stock units that were ultimately to be awarded in order to recognize compensation expense over the vesting period. Upon attainment of the performance goal, the non-vested stock units vest 33.33% on each anniversary subsequent to the date of the award. Each non-vested stock unit, upon vesting, represents the right to receive one share of the Company’s common stock. If the performance goals were not met, no compensation cost would have been recognized in that period and any previously recognized compensation cost would have been reversed. For awards of non-vested performance stock units made in 2011, the performance goal was achieved within the range of the graduated slope and there was no material adjustment to compensation cost related to non-vested stock units granted to executives. The Company did not grant any non-vested performance stock units during the first half of 2012, and no performance periods are currently open for non-vested performance stock units.

Market and Service Condition Stock Units

In March 2012, the Company granted senior level employees non-vested stock unit awards representing, in the aggregate, 418,809 non-vested stock units, based on certain target market and service conditions. The number of non-vested stock units underlying each award will be determined within sixty days of the calendar year following the end of a three-year performance period ending December 31, 2014. The attainment level under the award will be based on the Company's total return to stockholders over the performance period compared to the return on the Nasdaq Composite Total Return Index (the "XCMP"). If the Company's return is positive and meets or exceeds the indexed return, the number of non-vested stock units issued will be based on interpolation, with the maximum number of non-vested stock units issuable pursuant to the award capped at 200% of the target number of non-vested stock units set forth in the award agreement if the Company's return exceeds the indexed return by 40% or more. If the Company's return over the performance period is positive but underperforms the index, a number of non-vested stock units will be issued, below the target award, based on interpolation; however, no non-vested stock units will be issued if the Company's return underperforms the index by more than 20% over the performance period. In the event the Company's return to stockholders is negative but still meets or exceeds the indexed return, only 75% of the target award shall be issued. The extent to which the awardee will vest in the award, if at all, if the awardee is not employed by the Company at the end of the performance period is dependent upon the timing and character of the termination as provided in the award agreement.

The market condition requirements are reflected in the grant date fair value of the award, and the compensation expense for the award will be recognized assuming that the requisite service is rendered regardless of whether the market conditions are achieved. The grant date fair value of the non-vested performance stock unit awards was determined through the use of a Monte Carlo simulation model, which utilized multiple input variables that determined the probability of satisfying the market condition requirements applicable to each award as follows:

Expected volatility factor	0.21 - 0.39	
Risk free interest rate	0.47	%
Expected dividend yield	0	%

The range of expected volatilities utilized was based on the historical volatilities of the Company's common stock and the XCMP. The Company chose to use historical volatility to value these awards because historical stock prices were used to develop the correlation coefficients between the Company and the XCMP in order to model the stock price movements. The volatilities used were calculated over the most recent 2.75 year period, which was the remaining term of the performance period at the date of grant. The risk free interest rate was based on the implied yield available on U.S. Treasury zero-coupon issues with remaining terms equivalent to the remaining performance period. The Company does not intend to pay dividends on its common stock in the foreseeable future. Accordingly, the Company used a dividend yield of zero in its model. The estimated fair value of each award was $89.95 as of the date of grant.

Service Based Stock Units

The Company also awards senior level and certain other employees non-vested stock units granted under the 2005 Plan that vest based on service. The majority of these non-vested stock unit awards vest 33.33% on each anniversary subsequent to the date of the award. The remaining awards vest 100% on the third anniversary of the grant date. Each non-vested stock unit, upon vesting, will represent the right to receive one share of the Company's common stock. In addition, the Company awards non-vested stock units to all of its non-employee directors. These awards vest monthly in 12 equal installments based on service and, upon vesting, each stock unit represents the right to receive one share of the Company's common stock.

Unrecognized Compensation Related to Stock Units

As of June 30, 2012, the number of non-vested stock units outstanding, including performance awards, market and service condition awards and service-based awards, including awards assumed in connection with acquisitions, was 3,572,163 and there was $224.1 million of total unrecognized compensation cost related to non-vested stock units. The unrecognized cost is expected to be recognized over a weighted-average period of 2.44 years. See Note 4 for more information regarding the Company's acquisitions.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The Company accounts for goodwill in accordance with the authoritative guidance, which requires that goodwill and certain intangible assets are not amortized, but are subject to an annual impairment test. There was no impairment of goodwill as a result of the annual impairment test analysis completed during the fourth quarter of 2011. There were no indicators of impairment during the three and six months ended June 30, 2012. Excluding goodwill, the Company has no intangible assets deemed to have indefinite lives. See Note 4 for more information regarding the Company's acquisitions and Note 9 for more information regarding the Company's segments.

The following table presents the change in goodwill allocated to the Company's reportable segments during the six months ended June 30, 2012 (in thousands):

	Balance at January 1, 2012	Additions		Other		Balance at June 30, 2012
Enterprise division	$956,504	$42,326		$(52,691)	(2)	$946,139
Online Services division	282,616	25,503		43,621	(2)	351,740
Consolidated	$1,239,120	$67,829	(1)	$(9,070)		$1,297,879

(1) Amount primarily relates to acquisitions. See Note 4 for more information regarding the Company's acquisitions.

(2) Amount primarily relates to reclassification of goodwill between segments. In the first quarter of 2012, the Company transferred the business acquired in its acquisition of ShareFile from its Enterprise division to its Online Services division. Also included in the Online Services division is foreign currency translation. See Note 4 for more information regarding the Company's acquisitions and Note 9 for more information regarding the Company's segments.

Intangible Assets

The Company has intangible assets with finite lives that are recorded at cost, less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets, generally three to seven years, except for patents, which are amortized over the lesser of their remaining life or ten years. Intangible assets consist of the following (in thousands):

	June 30, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Product related intangible assets	$513,669	$297,867	$472,582	$268,332
Other	286,960	148,910	274,816	135,694
Total	$800,629	$446,777	$747,398	$404,026

Amortization of product related intangible assets, which consists primarily of product related technologies and patents, was $17.1 million and $12.5 million for the three months ended June 30, 2012 and 2011, respectively, and $33.6 million and $25.2 million for the six months ended June 30, 2012 and 2011, respectively, and is classified as a component of Cost of net revenues on the accompanying condensed consolidated statements of income. Amortization of other intangible assets, which consist primarily of customer relationships, trade names and covenants not to compete was $5.2 million and $3.9 million for the three months ended June 30, 2012 and 2011, respectively, and $15.7 million and $7.4 million for the six months ended June 30, 2012 and 2011, respectively, and is classified as a component of Operating expenses on the accompanying condensed consolidated statements of income. The Company monitors its intangible assets for indicators of impairment. If the Company determines that an impairment has occurred, it will write-down the intangible asset to its fair value. For the six months ended June 30, 2012, Amortization of other intangible assets includes a $5.2 million impairment related to the Company's decision to contribute its CloudStack tradename acquired in conjunction with its acquisition of Cloud.com to the Apache Software Foundation. As a result, the carrying value of the CloudStack tradename was written down to zero. See Note 4 for more information regarding the Company's acquisitions.

Estimated future amortization expense is as follows (in thousands):

Year ending December 31,	
2012	$113,652
2013	124,339
2014	117,944
2015	96,312
2016	74,663

9. SEGMENT INFORMATION

The Company’s revenues are derived from sales of its Enterprise division products which include its Desktop Solutions, Datacenter and Cloud Solutions and related technical services and from sales of its Online Services division's web collaboration, connectivity, remote support and data sharing products. The Enterprise division and the Online Services division constitute the Company’s two reportable segments.

The Company does not engage in intercompany revenue transfers between segments. The Company’s chief operating decision maker (“CODM”) evaluates the Company’s performance based primarily on profitability from its Enterprise division products and Online Services division products. Segment profit for each segment includes certain research and development, sales, marketing and services and general and administrative expenses directly attributable to the segment as well as other corporate costs allocated to the segment and excludes certain expenses that are managed outside of the reportable segments. Costs excluded from segment profit primarily consist of certain restructuring charges, stock-based compensation costs, amortization of product related intangible assets, amortization of other intangible assets, net interest and other income, net. Accounting policies of the Company’s segments are the same as its consolidated accounting policies. In the first quarter of 2012, the Company transferred the business acquired in its acquisition of ShareFile from its Enterprise division to its Online Services division.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net revenues:				
Enterprise division	$489,700	$424,311	$958,462	$815,427
Online Services division	125,510	106,479	246,243	206,251
Consolidated	$615,210	$530,790	$1,204,705	$1,021,678
Segment profit:				
Enterprise division	$123,776	$116,619	$240,949	$217,068
Online Services division	18,972	16,203	40,108	30,753
Unallocated expenses (1):				
Amortization of intangible assets	(22,294)	(16,479)	(49,296)	(32,687)
Restructuring	—	—	—	(24)
Net interest and other income	3,353	5,088	7,153	12,660
Stock-based compensation	(38,262)	(20,753)	(68,819)	(38,637)
Consolidated income before income taxes	$85,545	$100,678	$170,095	$189,133