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January 31, 2003

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Via E-Mail

Ms. Suzanne Q. Bielstein
Financial Accounting Standards Board
MP&T Director - File Reference No. 1102-001
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Email: director@fasb.org

Dear Ms. Bielstein:

Thank you for the opportunity to submit the comments of Citrix Systems, Inc. ("Citrix") in response to the Financial Accounting Standards Board's ("FASB" or the "Board") Invitation to Comment, titled "*Accounting for Stock Based Compensation: A Comparison of FASB Statement No. 123, Accounting for Stock Based Compensation, and its Related Interpretations, and IASB Proposed IFRS, Share-based Payment,*" dated November 18, 2002.

Citrix is a global leader in virtual workplace software and services that provide access to applications, information, processes and people on any device, over any network, anywhere, anytime. Citrix is traded on the Nasdaq Stock Market under the symbol CTXS, and is part of the Standard and Poor's 500 Index. Citrix has approximately 1,665 employees and is headquartered in Fort Lauderdale, Florida. In fiscal 2002, the company had net revenues of \$527.4 million.

Citrix has long considered the encouragement of employee ownership of Citrix common stock through broad-based incentive stock option plans to be in the interest of all shareholders as a means of promoting focus on innovation and the long-term increase in shareholder value. Options have been generally granted to people at all levels of the company, not just senior executives. We therefore have a vested interest in how such stock options are accounted for on our financial statements.

With that background, we write to formally state our disagreement with FASB Statement No. 123 ("FASB 123")'s mandatory expensing of options using the fair value method of accounting. We believe that companies concerned with the adverse accounting effects of option expensing may be more reluctant to grant options, which would inhibit recruitment and retention of top employees and hinder an important means of rewarding those individuals

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responsible for increasing shareholder value. We believe that this deterrent effect of option expensing has the potential to undermine the culture of entrepreneurship and innovation that has been one of the strengths of the U.S. economy.

Option Pricing Models are Unreliable and Misleading. We believe this accounting methodology would result in substantially less transparency for investors, less consistency, and more opportunities to manipulate earnings. Stock option pricing formulas, including Black-Scholes and other existing option pricing models, were not originally designed to value employee options, which are typically non-transferable. The lack of transferability, as well as other restrictions and risk of forfeiture, are among the many unique aspects of employee stock options that are not accounted for in these pricing models. By not accounting for these significant restrictions, the value assigned to options by current option pricing models results in unreliable and misleading information to investors when used in financial statements. While we understand the difficulty in quantifying the appropriate value for employee options, these models do not produce a 'fair value' for which the option could be exchanged in a current transaction between willing parties. In fact, it is our understanding that while employees generally regard their options as valuable, most would not pay the Black-Scholes or binomial value for those options because they do not perceive that value as a measure of the compensation they are receiving. For example, for some companies with high volatility stocks, the option pricing model values can be as high as 70% of the grant date market value of the stock. We doubt that employees would be willing to pay that much for the option when they could purchase the stock itself for only 30% more. Thus, the stock option expense that is calculated under these stock option pricing formulas does not represent the 'fair value' of the options granted to employees, which conflicts with the intent of the Board and FASB 123.

Option pricing models are also unreliable and misleading because these models are heavily dependent on predictions about future stock price behavior. Depending upon what assumptions are made, these models produce wide-ranging and potentially misleading results. Models like Black-Scholes would result in similar companies coming up with significant deviations in the expense number for the same group of options depending on the variables selected by the company. For example, estimates of volatility have a significant impact on the model and rely on future performance which is extremely difficult to predict. In addition, interest rates, dividends, and employee behavior also would have to be predicted.

Graph A* attached to this letter, using Citrix's financial statements as an example, illustrates this dependence on highly subjective assumptions and the lack of correlation between the

* For informational purposes, we have attached Graph B which shows for the years ended December 31, 1998, 1999, 2000 and 2001 the following amounts as reported in Citrix's annual report: (1) net income, (2) pro forma net income under FASB 123 as reported in the footnotes to Citrix's financial statements, and (3) the compensation expense before taxes under FASB 123. We have also attached Graph C which shows the options granted and exercised during each of the years ended December 31, 1998, 1999, 2000 and 2001.



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value of options granted or exercised and the respective compensation expense a company would have to record in its income statements. A discussion of Graph A and this analysis follows:

- In the year 2000, even though Citrix decreased option grants (net of forfeitures) from the prior year by 60%, and option exercises by employees also decreased by 36%, Citrix's compensation expense under FASB 123 (using the Black-Scholes option pricing model) would still have increased over the prior year by nearly 130%. This results in the significant variance shown on Graph C between the change in net income as reported under APB 25 (down only 19%), and the change in pro forma net income under FASB 123 (down 160%).
- This anomaly is largely due to the higher volatility variable (actually only .80 from .60 the previous year, which shows how sensitive the option pricing model is to the volatility variable) caused by the significant increases in the share price of Citrix's common stock in 2000. Graph D attached shows the average closing share price of Citrix's common stock from January 1998 to January 2002. Under this option pricing model, the stock price increases in 2000 would have an enormous impact on Citrix's compensation expense and its net income for not only the year 2000, but, in accordance with accounting standards under FASB 123, for the following three to four years as well, even though the actual stock price was much lower in those later years.
- When one takes into account Citrix's historical stock price over the past five years as shown on Graph D, it is difficult to see how the employees that were granted options in 2000 with an exercise price per share ranging from \$70-\$110 would place much "value" at all in those options. Nonetheless, Citrix would have recorded significant compensation expense in 2000 (and in the following three to four years based on the ratable allocation of the expense over expected option life) for such options.

While we realize that estimation is inherent in financial reporting, the above example illustrates the substantially misleading financial information that would result if the estimated fair value of employee stock options were required to be reflected in every company's financial statements. Moreover, the estimated fair value of options, unlike other areas of financial reporting, will never be subsequently verified or "trued-up" through an independent transaction. Because no independent verification of that estimate ever occurs, this calls into serious question the usefulness of the estimate and exacerbates the potential for abuse.

Another anomaly resulting from the application of FASB 123 is that companies would be required to estimate the expected option term at the grant date and continually remeasure compensation cost by rerunning the option pricing models using revised estimates of the option term, thereby resulting in possible changes in estimates up until the exercise date. In the event the stock price declines and the options remain unexercised, companies would be required to recognize *more* compensation expense (reflecting the options' full contractual

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term) when economic reality is that the employee probably deems the options as essentially worthless and, therefore, the company is most likely deriving no benefit from having granted the options. In this situation, recognizing a larger expense charge produces an accounting result that is worse than recognizing zero expense as under present practice. Likewise, in the event the stock price rises, and employees elect to exercise soon after vesting, the company would recognize *less* compensation expense on options deemed more valuable by the employees.

Finally, because options are a non-cash expense to the company and the valuation and timing of grants are somewhat arbitrary, including such figures in the income statement will create potential opportunities for manipulation and abuse. Incorrect or misleading option expense numbers will not increase financial statement reliability, transparency, or comparability but will instead make comparisons among competitors more difficult.

Cost-Benefit Considerations. Significant time and effort would be spent on making the required estimates (particularly volatility which is not intuitively evident), educating management and others, and bookkeeping (constantly revising estimates of forfeitures, the expected option term, the number of options earned through attainment of performance targets, etc.). When this substantial effort is weighed against financial statement results that are unreliable and misleading (and therefore of questionable utility), it is clear that the costs of expensing options far outweigh the benefits. In fact, we understand that research analysts who follow and report on public companies consider it difficult to compare results of peer group companies containing those charges and it is likely they will “back out” the compensation charge in analyzing the results of operations.

Better Disclosure. We believe the solution is not expensing options but instead better disclosure of potential dilution. The real “cost” of a stock option is potential dilution. It does not impact a company’s net income or the overall financial performance of a business, but rather reduces each shareholder’s personal ownership of the business. That is why Citrix is one of 33 companies, including, among many others, Cisco, Intel and Sun Microsystems, that, under the American Electronics Association (“AeA”) and TechNet guidelines, have voluntarily agreed to provide shareholders and the public with expanded information about stock options. By consolidating this information into one section of a company’s 10-Q filings, providing it in a consistent format, and disclosing the information to shareholders on a quarterly basis, the new disclosures give shareholders comprehensive, transparent and timely information about stock options. TechNet submitted these guidelines in a comment letter to FASB on November 4, 2002. We have attached to this letter a copy of the AeA and TechNet press release and the disclosure guidelines.



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As described in TechNet's November 4, 2002 comment letter, these new disclosures provide shareholders with all relevant information about stock options in a separate section of a company's quarterly SEC filings in easy-to-read tables and charts that summarize:

- employee and executive option grants;
- year-to-date option activity, as well as option activity in the prior fiscal year;
- "above water" and "underwater" option information as of the reporting date (i.e. options that have an exercise price below a company's current share price, as well as options with an exercise price above the company's current share price); and
- the portion of options that go to executives versus the portion provided to the rest of the company's employees.

In addition, separate tables provide new, detailed information about options granted to a company's listed officers. The disclosures also provide new information about dilution, enabling shareholders to see the potential impact of new option grants on the total number of shares outstanding.

We believe that the AeA and TechNet guidelines for disclosure provide comprehensive and timely information on options to investors and address the Board's goals of ensuring consistency and comparability of financial statements and providing clarity of the effect of stock-based compensation on reported results. Further, these disclosures meet the demands of investors for transparent information about employee stock options.

We appreciate the Board's consideration of our comments. If you have any questions, please contact David Urbani, Acting Chief Financial Officer and Vice-President Finance, Treasurer and Assistant Secretary at 954-267-2260.

Sincerely,

/s/ David Friedman

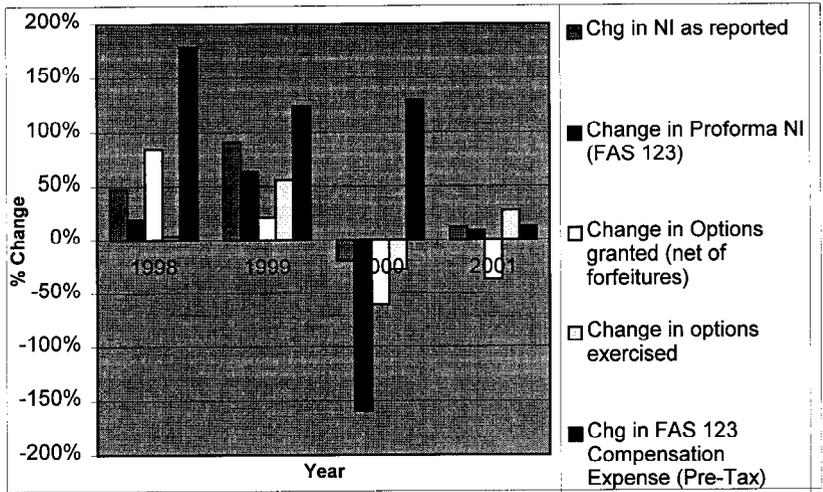
David R. Friedman
Vice President, General Counsel and
Secretary

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Graph A

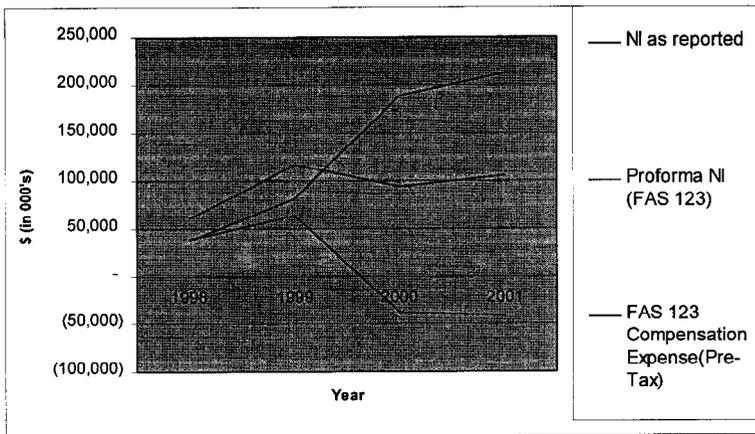


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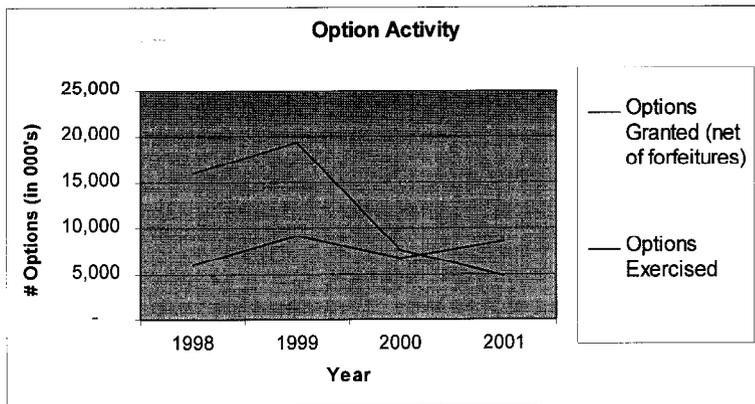


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Graph B



Graph C



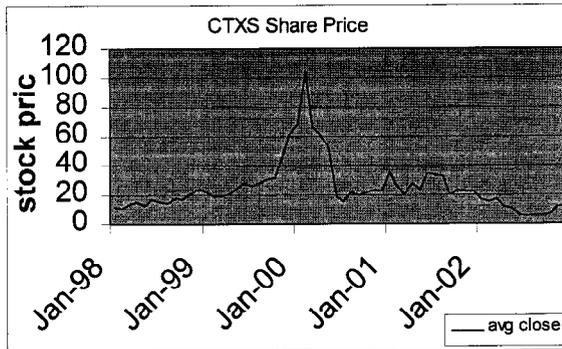
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Graph D



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