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CTXS - Citrix Systems Conference Call to discuss Acquisition of Net6

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PRESENTATION

Operator

Good afternoon, my name is Ramona and I will be your conference facilitator today. At this time I would like to welcome everyone to the Citrix Systems call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer period. (OPERATOR INSTRUCTIONS). Thank you. I would now like to introduce Jeff Lilly, Manager of Investor Relations. Mr. Lilly you may begin your conference.

Jeff Lilly - *Citrix Systems - Manager of Investor Relations*

Thank you, Ramona. Good afternoon and thank you for joining us this afternoon to discuss Citrix's definitive agreement to acquire Net6. Participating in the call today Mark Templeton, Citrix's President and Chief Executive Officer; David Henshall, Citrix's Vice President and Chief Financial Officer and Murli Thirumale, President and Chief Executive Officer of Net6.

This call is being Web-cast from Citrix's corporate Web-site and a replay of this call and Web-cast will be available through Thursday, December 23rd, 2004.

Before we get started, I want to emphasize that certain comments made during the call may be characterized as forward-looking statements, made pursuant to the Safe Harbor provision of Section 21E of the Securities and Exchange Act of 1934. The statements involve a number of factors that could cause actual results to differ materially, including risks related to the closing of the acquisition, customers, products and business integration, competition and failure to achievement anticipated revenues. Additional information concerning factors that could affect Citrix's business or financial results are highlighted in the slide presentation, press release, and in the Company's filings with the SEC. Additionally, in this call we will discuss various non-GAAP financial measures as defined by SEC Regulation G, including certain adjusted figures which include operating expenses, and earnings per share. The most directly comparable GAAP financial measures and a reconciliation of the differences discussed on today's call can be found at the end of our press release dated today and on the Investor Relations page of the Citrix Corporation Web-site.

Now, I would like to introduce Mark Templeton, President and Chief Executive Officer of Citrix Systems.

Mark Templeton - *Citrix Systems - President, CEO*

Thank you, Jeff, and good afternoon everyone. Well, today we have a very exciting announcement that continues to consolidate our leadership role in the secure access marketplace. It simplifies access security and makes access to voice as pervasive as data. That announcement is the acquisition of Net6, an innovator in access gateways for application, data and voice information. I'm super-excited about the Net6 team and products. Their gateways bring unprecedented mobile flexibility to end-users, profound simplification of access security to IT organizations and tap

the enormous potential of the IP telephony market. It's especially thrilling to think that Citrix Access Infrastructure will be the first to provide on-demand access to both voice and data across virtually any screen size, device type and location.

Back in April, many of you attended or tuned into our strategy day event, when we shared our plans to further define and lead the access infrastructure market, a market that is growing at 12 percent annually and according to IDC, will grow to 22 billion in the next three or four years. The acquisition of Net6 accelerates this strategy in four key ways. First, it allows us to offer an SSL-based access gateway -- a secure, always on, single point of access, that is simple and cost-effective to adopt as a new customer and completely complementary to thousands of MetaFrame solutions in service today. Second, it allows Citrix to enter a new, adjacent access market, the market for accessing voice and data applications from IT screen phones and from small screen factor devices like smart phones, all based on Net6's application gateway product. Third, it gives Net6 products broader customer exposure, international reach and the powerful Citrix brand. And fourth, it brings to Citrix new competencies in IT telephony, application transformation technology and in packaging software as an appliance.

In combination with our suite of access products and services, we will deliver the ultimate user access experience securely to both data and voice applications. At the same time, IP phones, smart phones and PDAs will become strategic access devices and suddenly virtual call centers, virtual branch offices and a whole new realm of tele-commuting are now possible.

This is another step up for Citrix, for our channel partners, and for our 120,000 customers, giving us the broadest suite of solutions in the access market. We are making the last mile of computing secure, simple for users, an adaptable to almost any access scenario. Only Citrix and Net6 can do this. Net6 is an innovative and entrepreneurial company. Over the past four years they have completely focused on building gateway appliances that provide voice and data access, building partnerships with Avaya, Cisco, Nortel, and others, building a presence in IT telephony applications with their voice office suite, and gaining a foothold with approximately 150 customers. We have been very impressed with the management team, with their technology and with their execution. Customers are using Net6's products to simplify and lower the cost of remote access and to maximize the potential of IP telephones. In the early '90s, Citrix imagined the potential of harnessing the public Internet for private

access to corporate applications and information. In those days security, latency and reliability were huge challenges. And those challenges remain today. In 1994, Citrix was first to enable secure Internet-based access to a Windows desktop by virtualizing the Windows UI and transmitting and encrypted protocol. In 1996, Citrix was first to Web-enable Windows applications, providing secure access through a browser. In 2001, we SSL-enabled our ICA protocol, shipping it with every license of MetaFrame Presentation Server. And over the past two years, we've added SSL support for http and Microsoft exchange connections. These SSL-protected access features are now in-use by approximately 20 percent of our customers, enabling hundreds of thousands of users to access private resources over public networks.

The Net6 SSL access gateway allows us to take this solution much further using an innovative technical approach and cost model that is superior to IPSEC and traditional SSL VPN solutions. Our SSL access gateway provides a single point of access that is secure and managed, that's always on, even when I switch between office, home and public networks when I travel, that always SSL-encrypted and secure on either side of the firewall, that supports the widest array of communication protocols, even voice-over-IP, and that is simple and cost-effective for organizations, large or small. In just three full quarters of availability, the Net6 assess gateway has garnered almost 100 customers. As we bring this product into our portfolio, it will allow us to offer a compelling stand-alone access solution and it will become a core component to enhance Citrix with roaming as well as our future smart access capabilities. The acquisition also enters Citrix into the voice and data access market for small screen factor devices with the Net6 application gateway. Shipments of screen-based IP phones are exploding. In fact, approximately one million shipped in last quarter alone. Shipments of next-generation PDAs and smart phones are also growing rapidly. All this is creating a huge but virtually untapped platform for secure access to both voice and data applications. The Net6 application gateway is an exciting product that brings their Voice Office applications suite to popular IP phone systems. Voice Office put the graphical interface on voice mail -- it makes simple work of setting up conference call, accessing directories, sending news and information alerts and much more. Net6 Voice Office is the ultimate personal productivity tool for IP phones and it's sold with leading IP PBX vendors including Ayava , Cisco, Mytel, NEC, Nortel and Siemens.

The Net6 application gateway also allows legacy and Web-based applications to be accessed by small screen factor

devices using Net6's Design Studio tool -- just point-and-click to transform existing applications for access from any PDA, smart phone or IP phone. The possibilities here are exciting and enormous, for addressing vertical markets like hospitality, education and healthcare, for expanding our relationships with industry partners like Avaya, Cisco, HP and Microsoft, for creating new opportunities with integration partners, for deepening our ISV ecosystem relationships, all built on powerful Net6 application transformation technology. Gateways that securely access corporate resources that make IP phones access devices are key components to our vision. So it was pretty easy for us to get excited by Net6.

When I first Murli Thirumale, Net6's CEO and one of its founders, it was clear that Net6 was looking to accelerate its presence among enterprise customers. We also spent significant time talking about company values, principles and culture. The similarities here were remarkable. So we both believe that merging was the right strategic thing to do for both our companies and that we would be well-positioned for success together. Going forward, Citrix will use our broad customer presence, channel network, industry partnerships and financial strength to help Murli and team grow both product businesses even faster. We will transition the Net6 brand to a Citrix product brand as quickly as possible and continue to operate the existing business from San Jose as the Citrix Gateways Division.

As VP and General Manager, Murli will report directly to me and will continue to lead this excellent group of founders, managers and employees.

Now let me turn the call over to David Henshall, to discuss the financials.

David Henshall - *Citrix Systems - VP, CFO*

Thanks Mark. What I would like to do is talk briefly about the terms of the transaction and the expected impact on our financial model.

Under the terms of the deal, we signed a definitive agreement to acquire Net6 for approximately $50 million in an all-cash transaction. At this time, the deal has been unanimously approved by the Board of Directors of each company, and has been approved by the stockholders of Net6. The transaction is subject to customer and closing conditions and we expect the transaction to close before the end of year. Net6 was founded about four years ago and brings together a team with a deep experience base, from companies like Hewlett-Packard, Northern Telecom, Symetricon and Intel. We are excited about bringing this team on-board Citrix. Since the founding, the team at Net6 has developed and launched the technologies and products that Mark has just discussed, and are already having an impact on the market. At this point in the lifecycle, Net6 has already generated a couple of million dollars in revenue and we believe that we can help accelerate this ramp in their rapidly-growing market space.

As Mark mentioned, we are planning to continue to operate the existing business from its current location in San Jose, California and we'll adopt an approach similar to the one we employed with the acquisition of Citrix Online in February. As you know, our integration of Citrix Online has proven to be very successful, enabling that division to perform in-line with our expectation throughout the year.

Turning to the impact on the consolidated financial statements -- upon closing, which is expected in the fourth quarter, the transaction will result in approximately 1 to $3 million charge for in-process research and development which equates to approximately $0.01 per share on a GAAP basis. The remaining purchase consideration will be allocated amongst acquired net tangible and intangible assets and goodwill. In the first half of 2005, we expect the transaction to be $0.03 to $0.04 dilutive on a GAAP basis and $0.02 to $0.03 dilutive as adjusted to exclude the effects of amortization of intangible assets. In the second half of 2005, we currently expect the acquisition to be neutral to accretive to earnings on a consolidated basis.

So, in summary, we're excited about the deal and we think it fits strategically into our access infrastructure market opportunity. Now let me turn it back over to Mark.

Mark Templeton - *Citrix Systems - President, CEO*

Thanks, David. So, the message is simple. First, we get a new secure access product, the Net6 SSL Access Gateway. Two, a new addressable market for Citrix, via the Net6 application gateway. And three, new go-to-market partners, new access technologies and a fantastic team that knows this marketplace extremely well -- all this in a company that is complementary to our brand and our culture. But we think that sums it up pretty well and is the basis for a lot of excitement. So now let's open it up for questions.

Operator

(OPERATOR INSTRUCTIONS). Ed Maguire, Merrill Lynch.

Ed Maguire - *Merrill Lynch - Analyst*

Could you provide any sense of the current financial run rate or at least the number of employees that are coming over with Net6?

Mark Templeton - *Citrix Systems - President, CEO*

Yes, Ed, this is Mark. There are about 27 employees at the company today. And David indicated, actually, a pretty conservative view of the revenue that has been generated. So they are on about that kind of a run rate for this year.

Ed Maguire - *Merrill Lynch - Analyst*

Okay. And a question for Murli. You guys have been out with a hybrid VPN offering for several months. Just, could you help us understand how you have been positioning this against some of the stand-alone SSL VPN vendors and the IPSEC vendors as well and how you see the synergies playing out with Citrix?

Murli Thirumale - *Net6 - President, CEO*

Sure, I would be glad to comment on that. First of all, let me just say I am delighted to be here and to have the opportunity to talk to all of you. As far as positioning of our technology, we really have a very, very unique solution which combines the benefits of both what has traditionally been known as the IPSEC technology, which is pretty much the granddaddy of the VPN -- it enabled remote access initially, but had a lot of shortcomings that were addressed to some extent by the SSL VPN product line that you have seen in the last few years. Unfortunately, what we have seen is that customers have ended up being -- having to live with the problems of IPSEC an, in turn, having to replace that with SSL VPNs -- having to replace SEC them with a different set of problems. Overall, what we have done is really kind of gone back to basics of what we expect users to see in remote access and essentially our technology has significant benefits -- one of them is, it is very, very user-centric. It's very simple for the user -- creates a much better user experience. Second, it is dramatically lower cost of maintenance from an organization expense viewpoint. And then finally, it overcomes a number of the individual problems -- for example, firewall transversal -- that IPSEC has

always struggled with. In the case of SSL, some problems that we overcome are application coverage. Mark talked about the fact that we are able to deliver voice applications across SSL, which is a unique capability we have. In addition to that, we are able to cover pretty much any application -- any protocol with the technology we have. So overall, in summary, I think it's -- the technology that we bring is effectively a complete and total replacement for an IPSEC or an SSL solution, which is what most organizations find that they have to deploy -- just both those together, all at once.

Ed Maguire - *Merrill Lynch - Analyst*

Okay, thanks very much.

Operator

Todd May, Deutsche Bank.

Todd May - *Deutsche Bank - Analyst*

I was wondering if you could talk a little bit about the revenue that you expect from the Company, again -- I guess I missed that -- or the revenue that it has generated so far.

David Henshall - *Citrix Systems - VP, CFO*

Todd, this is David. We expect that on a go-forward basis for the full-year 2005 that post-accounting adjustments, recognize revenue in the range of 5 to $8 million.

Todd May - *Deutsche Bank - Analyst*

Okay, great. And then, can you talk a little bit about, you said it will be a stand-alone product that you guys will offer to your existing customers. Could you talk a little bit about pricing on that as well?

Mark Templeton - *Citrix Systems - President, CEO*

Todd, this is Mark. At this point we don't have any pricing to talk about under the sort of Citrix brand. I think there are some discussions underway about the price points and how we might marry them up with some of the things that we are already doing. But suffice it to say that what we'll do is, we will price this in a very cost-effective way to drive the marketplace in terms of share and volume -- and especially

when it comes to first adopters of remote access infrastructure. Because we think that there is a great opportunity there for us in the smaller-customer mid-size marketplace, that would then allow us to gain a bigger share for our other access infrastructure products, like Presentation Server or Password Manager.

Todd May - *Deutsche Bank - Analyst*

Okay. Great. And then, there were some prices that were listed on the Web-site -- at Net6's. Is that ballpark idea? I know you don't want to discuss that.

David Henshall - *Citrix Systems - VP, CFO*

Yes, I think you can use that -- those are the price points today. And we will look at those and review those in the context of our strategy going forward.

Todd May - *Deutsche Bank - Analyst*

And another thing I wanted to run over, just operating -- sorry Dave, to hop back to you -- but operating expense estimates for next year, could you just ballpark those as well? And maybe on a quarterly basis?

David Henshall - *Citrix Systems - VP, CFO*

I think it would point back to the estimated range of dilution at this point. So, on a pro forma basis, $0.02 to $0.03 dilutive in the first half of the year and neutral to accretive in the back half.

Todd May - *Deutsche Bank - Analyst*

Okay. Great. And then, last question. Are most of the people you've got -- you will be adding in the R&D area? Or could you maybe break those down by expense item -- line item?

David Henshall - *Citrix Systems - VP, CFO*

Well, I don't think we have a detailed breakdown for you. But basically, the mission here will be to scale up the Company. Tremendous products -- tremendous markets. And now it's about scaling them up. So, we will grow the R&D team. There are some great opportunities to enhance the products to be more integrated with our other infrastructure products. And

so probably half of that will go -- half of the growth will go toward R&D. And then the other half of the growth will go in all the go-to-market sort of areas, in sales and marketing, within -- of course, we do have to do some work in the finance and admin area, especially when it comes to SOX compliance and so forth.

Operator

Robert Breza, RBC Capital Markets.

Robert Breza - *RBC Capital Markets - Analyst*

Mark, I was wondering, can you talk a little bit about the distribution and scaling up -- how do you see transitioning the channel? You obviously have a much larger channel. What should we expect as we go forward here? What is the training involved to expand the channel? How quickly do you think you can really get this rolled out? What is your plan? Is it to take it through the U.S. first and then go international? Can you give us some color around worldwide distribution as well?

Mark Templeton - *Citrix Systems - President, CEO*

Okay. So first let me say on the Application Gateway side -- the side of the business that really drives the IP telephony kind of marketplace -- that side will be business as usual. The Company has a great strategy around using the carriers and IP PBX manufacturers as partners and as resellers. And so, there will be some scaling up there and leveraging some of the relationships we have with them. But that will be business as usual and grow with that market.

On the VPN side of the business, we will focus on North America first, which is where the Company has had its focus. And that focus has been through an inside sales sort of model. So, they really don't have any distributors and have some resellers -- a handful of resellers -- that have done some business and some repeat business. So what we will do is -- they have been in fact, targeting some selected Citrix resellers, knowing that these are the kinds of channel partners that already have a remote access business.

So what we will do is give the Net6 team access to our U.S. distribution, focus on that first, leverage the training and education materials that they already have, and use those materials early-on to train resellers through our value-added

distribution network. And that will be the focus of let's say first quarter. And we think we can hit the ground running with this product with that method and actually touch a lot of our North American resell partners. And this the kind of product that they are particularly skilled at selling, marketing and installing, in that it has a very compelling value proposition, it integrates very easily with lots of infrastructure that already is in-place and solves some really important problems, especially as Murli indicated, providing a better user experience for the remote access person that is on the end of the wire.

Then we will -- in the first quarter -- then, get the plans together to push out on the international market. The Company to-date has had a very small amount of international business, really doing it opportunistically, and we'll continue to sort of service that business in that way and take the first quarter to get the right plans in-place to then turn on our international distribution, especially our value-added distributors around the world and then, in turn, we'll be able to train in a very fast cycle, lots and lots of our resale partners. So that's sort of the progression of thinking that we have around how we actually roll this out.

Robert Breza - *RBC Capital Markets - Analyst*

Okay. Murli, could you maybe comment -- and I know you said that the product has been out for about three quarters, in the prepared remarks and you have about 100 customers. How would you characterize maybe the sales cycle, maybe the average deal size around maybe some of those 100 customers? I know it's only been out for three quarters. But can you kind of walk us through some of the deal dynamics that you have seen, in terms of sale cycle and deal size?

Murli Thirumale - *Net6 - President, CEO*

Sure, Robert. You know, we've had, I should point out that when you talk about the three quarters, that's really the hybrid VPN product that we have been selling. The Application Gateway predates that and we have been shipping that for over three years. So back to your question on deal sizes, given the fact that we are just ramping this business up, we have really started with what I would call seeding of the initial customer base. So, actually what people are doing is they are installing this in pilots and then slowly expanding it to production as they discover the benefits to the organization. So having said that, we, as you can see from our pricing profile on the Web-site that somebody mentioned before, most of

these are -- it's fairly disruptive pricing that we had put in, to get some good market share -- initially penetration-wise. And so our deal sizes have kind of ranged from 5 to about $10,000 on an average sale. But what we are seeing -- in the last quarter, it's been good to see that we are getting a lot of repeat purchases of tunnels, which is so people can put a gateway and then buy additional tunnels. And what we are seeing is that then these deals go up to 15 and $20,000 as people purchase more and more tunnels as they go into production.

Operator

Steve Freitas, Harris Nesbitt.

Steve Freitas - *Harris Nesbitt Gerard - Analyst*

Was Net6 EP-backed (ph)? And if so, can you give us a sense as to how much cumulative funds were raised?

Murli Thirumale - *Net6 - President, CEO*

Sure. Yes. We are fortunate to be backed by a great set of EPs. We have had Sierra Ventures, Olympic Venture Partners and Bank of America Venture Partners have put money in -- two different rounds, a total of 17 million invested.

Steve Freitas - *Harris Nesbitt Gerard - Analyst*

Okay. And Mark, regarding MSAM, how does this acquisition change your view of positioning that product, particularly as a stand-alone solution?

Mark Templeton - *Citrix Systems - President, CEO*

Well, Secure Access Manager more and more has been used for access control, both in terms of what you can get access to, as well as control of the access experience for users. And I think that it is highly complementary to the Net6 SSL Access Gateway. Clearly, Secure Access Manager does have support for SSL-based ICA, http, as well as Exchange Support over SSL. So we will for the time being continue to sell Secure Access Manager in that configuration and let customers decide in their own time around putting this Access Gateway in front of it. I think that in the end, they will find that this is a better solution for connecting to Secure Access Manager, and that Secure Access Manager will take up the role of providing a larger array of access control capabilities that we've been

talking about, including the granular access control mechanisms, access policies, end-point security analysis, and user experience control. And so, added to this product we will have an absolutely killer solution for enterprise customers.

Steve Freitas - *Harris Nesbitt Gerard - Analyst*

And finally, the voice-over-IP angle, it sounds very interesting. Is that technically feasible now? Or is it something that you envision being able to deploy the soft phone on a MetaFrame server and have that delivered to the user remotely? Or can that happen now? Or does the client have to have the soft phone on the particular client that they are using when they connect?

Mark Templeton - *Citrix Systems - President, CEO*

Okay. Steve, first of all, I am using the soft phone today at home. So when I go home, I can work just as I'm working at my office, not only now on the data side, as we have always done very well, but now with using the soft phone. And this is all over one connection through my DSL connection. In the futures and TBD bucket would be then to virtualize soft phones. Our advanced technology team has demonstrated this capability. And I think that the experience that the Net6 team has in telephony will help us actually accelerate bringing that capability to market. And then what's also pretty exciting is that the Net6 access -- Application Gateway actually does remote control of a PBX. So, you don't have to have IP phones on each end to actually benefit from this product -- which we won't get into right now. So, there are lots and lots of opportunities here that as we train our channel partners to exercise them, they'll see that we can do what we've really been good at for a long time. And that is, go into a customer environment and help them solve problems incrementally while having an overall strategic architecture for a longer-term approach. And that is so we can help them in that evolution, even in the telephony area with this acquisition.

Operator

Aaron Schwartz, J.P. Morgan.

Aaron Schwartz - *J.P. Morgan - Analyst*

Can you just talk about the margins on the hardware components and then the long-term implications for your model?

David Henshall - *Citrix Systems - VP, CFO*

Well the hardware margins are in the 75 to 80 percent range. And we believe that there won't be a material impact on our gross margins over the long-term.

Aaron Schwartz - *J.P. Morgan - Analyst*

Okay. And then on the terms of the transaction -- is there an earn-out in that 50 million, or would it be in addition to that?

David Henshall - *Citrix Systems - VP, CFO*

No, there is no earn out.

Aaron Schwartz - *J.P. Morgan - Analyst*

There is no earn out. And then, just to follow-up to last question. It sounds like the Net6 client software may have some overlap with SAM. But you're saying that the gateway would be complementary on top of that. And then you would look at sort of what to do with those two areas longer-term? Is that the right way to look at?

Mark Templeton - *Citrix Systems - President, CEO*

That's exactly the right way to look at it. In fact, we can show you demonstrations today, where the Net6 gateway points at Secure Access Manager and uses a number of the features of Secure Access Manager already. And then through some obviously technical integration work across the teams, we will be able to turn on the integration in a deeper way. And that also applies to Presentation Server. So the nice thing is that the Access Gateway will be a great stand-alone product, a great product that will complement Secure Access Manager, as well as a great product to complement Presentation Server. And so I think that these are -- and a key part of our strategy here is to help our channel partners have all these tools, so that when they go into a customer site, they can solve their problems in a way that is best for their kind of -- their pocketbook, their time, the value, the kind of systems that they have in-place, and their IT philosophies.

Aaron Schwartz - *J.P. Morgan - Analyst*

Okay. Great. And then, have you guys had a chance to look at possible customer overlap on those 100 customers?

Mark Templeton - *Citrix Systems - President, CEO*

We really haven't, at all.

Aaron Schwartz Okay, great. Thank you.

Operator

Steve Ashlee, Robert Baird.

Steve Ashlee - *Robert W. Baird - Analyst*

Most of my questions have been answered. With respect to the SSL Access Gateway being a superior technology to traditional SSL VPNs, is there anyone else in the market with similar technology today?

Mark Templeton - *Citrix Systems - President, CEO*

Murli, want to take that?

Murli Thirumale - *Net6 - President, CEO*

I will say that, Steve, that there's a lot of people who are attempting to do what we're doing. So there's a lot of folks who are dressing the same customer problems that we're solving. However, what we typically see is that what most folks are doing is they are taking the two old technologies and squishing them together in the same box. So in other words, what we do see is putting IPSEC type functionality and SSL functionality in the same box. And we see that approach as being limiting, because the customer now still has to live with the shortcomings of either, the problems -- the fundamental problems of IPSEC and SSL VPNs still remain. With our approach, we're really kind of packaging that together with a unique technology approach -- with a significant amount of IP that we have applied for a lot of patents for, where the individual shortcomings of IPSEC and of SSL VPNs don't exist anymore. So, yes, people are trying to solve the same problems. But they are not doing it as effectively as we are, because of the unique technology we have.

Steve Ashlee - *Robert W. Baird - Analyst*

And are those shortcomings, again, with IPSEC simply traversing the firewall is a challenge for them with respect to

SSL VPN -- is again the challenge there simply that it does not address a broad spectrum of protocols and applications?

Murli Thirumale - *Net6 - President, CEO*

Yes. I think I will add that on the IPSEC the top three problems that are actually well-recognized and actually well-documented as well, is -- one is firewall traversal, second line is high support costs, typically associated with the very-difficult-to-manage client, and then the third thing is, since IPSEC actually acts as plain old network plumbing, it bridges the two networks and can cause worms to traverse across. So as you can imagine, in the last year and a half, it's been a major concern for corporations who want to enable remote access, but are also cognizant of security problems with kind of connecting and bridging two networks.

On the SSL VPN site, the common problems are application coverage and second is a fairly expensive connector-by-connector, application-by-application kind of deployment model, which is fairly difficult to deploy and actually adds up over a period of time, in terms of very expensive costs. If you can imagine, from and enterprise view-point, it is also not future-proof, because when you buy a certain solution, you buy the application connectors for what you have. But you really -- as you look towards the future, you're going to deploy new applications. You will definitely be deploying voice-over-IP at some point in time. And those are all things that you don't have sort of built into the solution. With the approach we've taken, you get the 100 percent application coverage right up-front, so you get -- you're future-proofed.

Operator

Jason Kraft, SIG.

Jason Kraft Thanks -- couple of questions. On the integration -- I just want to circle back with the integration as far as, is the Net6 product going to just be from an SSL VPN standpoint -- continue to just be offered as a stand-alone? Is there any talk about integrating that technology into the core MetaFrame offering, maybe enhancing Citrix Secure Gateway? And then I have a couple of follow-ups. Thanks.

Mark Templeton - *Citrix Systems - President, CEO*

Absolutely -- so the answer is yes and yes. We are going to continue to offer it as a stand-alone. Remember, in terms of all this VPN technology that is out there available from any number of vendors, the penetration of the available market is very, very low. For IPSEC it is low because of complexity and costs and SSL VPN is very, very low because of all of the compatibility and cost aspects of that, that Murli talked about. And so, offering this as a stand-alone, but having taken a fundamentally different approach, that makes this a very simple product to install and changes the entire user experience paradigm toward a much simpler and almost invisible experience. We think that, as a stand-alone product, it has lots of legs. At the same time, when we look at customers that are already MetaFrame users and even significant users that want to consider this, we think there's lots of opportunity to do integration work and tie the Access Gateway into our management infrastructure, into all of our network reliability, session management and smooth roaming capabilities that we have been developing and releasing -- especially in the past year. So all of that opportunity is there as well. And you know sort of what technologies are impacted going forward, in terms of where we focus our energy, I think there are lots of smart guys thinking a whole lot about that right now, at both Net6 and at Citrix.

Jason Kraft - *SIG - Analyst*

But if you look at -- oh, sorry. You know, historically, an SSL VPN sale really has not been made, kind of in conjunction with MetaFrame. It's usually two words that have not shown up in the same sentence. Largely, SSL VPN sale is more competitive to the core MetaFrame sale and you guys have used Citrix Secure Gateway -- MSAM -- to a greater side, you know, to push that. So, when you mentioned that it complements implementation server, how -- when you go out there talk to the sales force in the channel, how do you kind of effectively, kind of communicate that in the past you had pushed Citrix Secure Gateway and MSAM. And now, here is a stand-alone appliance that used to be competitive. And now we are also going to offer that.

Mark Templeton - *Citrix Systems - President, CEO*

Well, each product on its own, okay, has its core capabilities and value proposition. Presentation Server's value proposition is all about virtualizing applications and simplifying and lowering the cost of providing access to them. Secure Access

Manager's value proposition is all about access control. And the Access Gateway's value proposition is about a single point of secure access over the last mile. And in all three cases, each product also has some capabilities that the others would share. It depends upon what the customers' core problems are, what problems they are trying to address and the urgency around those problems. And that's where Presentation Server has been focused on application access and to the degree that customers want to use the SSL capability feature, they have been very satisfied with doing that. And so I think what we will tell channel partners is, to the degree that customers want to now go beyond the Secure Gateway capability, that's a free feature of Presentation Server, and they can put the Access Gateway in front of it and open up a bunch of new possibilities for access, enhance the smooth roaming capability in a huge way, so that as you move from office, to a meeting, to an airport, to your home, and use the different types of public and private networks, you smoothly roam between them without all the complexes of figuring out how do I connect? How do I authenticate? What things do I launch on a desk-top to do all this? It just is invisible to the user. So each one of these has its core value proposition that we'll focus people on.

Jason Kraft - *SIG - Analyst*

Okay. And then just last question for David -- with 30 employees, looks to be -- just trying to walk through the why -- why the dilution only $0.02, $0.03 on an adjusted basis? But, is it just because of the heavy ramp-up mode? Or should we just consider that a very conservative first cut at potential dilution?

David Henshall - *Citrix Systems - VP, CFO*

Well, we're certainly going to be investing in this business to look for ways to not only drive integration but accelerate the market opportunity. So I think about it as an investment.

Operator

John Rizzuto, CSFB.

John Rizzuto - *Credit Suisse First Boston - Analyst*

Mark, I guess a lot of this is stuff that you already talked about specifically. But I guess I want to try to figure out or quantify if you have -- what you've seen in the field -- where you see

a mixed environment, if at all, with you're seeing your Presentation Server deployed with a VPN or IPSEC appliance out there now?

Mark Templeton - *Citrix Systems - President, CEO*

John, absolutely. There are many customers that use IPSEC, VPNs and SSL VPNs with Presentation Server. And again, you have to put this in context -- especially in the SSL VPN space and look at the number of sockets that have been sold out there. In fact, I believe -- we don't have empirical data, so I can't sort of go on the real record for a number. But given that our ICA over SSL technology has been available since almost 2001, and is in use by 20 percent of our customers, based upon some empirical research, that sort of calculates out to being more SSL sort of usage than the rest of the guys put together. So we think that this is absolutely logical and will allow us to show customers how they can build an access infrastructure system in a simpler way, eliminating some components that they are already using and really standardizing on our set of components that are nicely integrated together.

John Rizzuto - *Credit Suisse First Boston - Analyst*

What information have you gotten from the field prior to doing this acquisition, that going this route was a great way? Was it your channel partners? Was it actual conversations with customers? Is it your own gut feel?

Mark Templeton - *Citrix Systems - President, CEO*

It is all of the above, John, plus all of the evidence that shows the growth in remote access. You now, the last couple of years, remote access has gotten more and more interesting for customers, as they want to enable people that work from different locations. People want to travel less -- kind of all of these things -- and use the Internet for that kind of connectivity. But having all the fears around security. So we hear it from our partners, some of them are selling SSL VPN products already. We hear it from customers, some of which are implementing VPNs with our Presentation Server. Others that have implemented our Secure Gateway. This is a great, actually, replacement for it and allows them to do a whole bunch of new things with our products by replacing Citrix Secure Gateway. So it's sort of all of those things.

John Rizzuto - *Credit Suisse First Boston - Analyst*

Okay. It's kind of a new step for you, if you will, kind of bridging what was perceived as the access market to the security market -- if you could have one without the other. But what does this mean is next for Citrix? Were else can you go from here? Intrusion prevention, intrusion detection -- these are all part of the access strategy? Do you see it stopping here? Or what other types of strategies can you -- or the road you might travel down?

Mark Templeton - *Citrix Systems - President, CEO*

We don't see ourselves as a security vendor. Okay? We see ourselves as a vendor of secure products that provide access. I know it sounds like words, but it is way more than words to us. And that is why intrusion detection and so forth is not issue. It is not something we would be looking at. In fact, sort of the opposite. We are trying to figure out how to provide secure access without all of these other moving parts. Because, we believe that is the ultimate value proposition. So, for example, with this Access Gateway, whether you sit at your desk at the office or you sit at your desk and home or in an airport, we believe that you should have -- all your traffic should be encrypted all the time. And you should be connecting through the same single point of secure access all the time. That brings a whole new simplicity to how you build networks and provide access. And then, you don't worry about where someone might be from a network connection perspective.

So that's a secure product for access, not a security product. Then, as far as where we go from here -- I think we've been pretty clear and actually relatively transparent on this. When we talked at our customer conference iForum in October, we laid out sort of the eight core capabilities of access infrastructure and talked about those at some length. So for example, the Net6 acquisition really provides a couple of foundational technologies and products for the smart access ideas we talked about -- about an infrastructure that can be autonomic and can sense the access scenario and dynamically configure itself to provide the right kind of secure access to the kind of information that user wants to get to.

So as a further example, we talked about the importance of managing identity -- access identity of people and of devices and identity of networks and locations, as well as provisioning of access in terms of activating users, devices and locations and deactivating them in a fundamentally easier and centralized way. So if you go back to all of what we talked

about at iForum, I think you will get a hint at what we are doing here, roadmap-wise and what is next.

Operator

Curtis Shauger, CIBC World Markets

Curtis Shauger - *CIBC World Markets - Analyst*

Can you hear me okay? Just a couple quick questions for you, I know there's been a lot that have been asked. But I'm just curious on how the physical deliveries of the appliance product will, going forward. Is it a build and made-to-order type of scenario? And is it outsourced? And if by so, who?

Mark Templeton - *Citrix Systems - President, CEO*

Well, I'll let Murli talked about how they do it today. But let me say before that, that how we will do it under the Citrix brand will change. All right? Because first of all, two tiers of distribution, really getting value-added distributors involved in this will change the different way of going to market and, therefore, will have implications on how you build and shift this kind of appliance. So, let me turn it over to Murli and he can explain how they do it today.

Murli Thirumale - *Net6 - President, CEO*

Curtis, the product is actually very simple. It's just a stand-alone appliance. And the hardware is something that we outsource and really have multiple sources that we can source from, as needed. And we -- so, it's pretty much built and manufactured at Net6 and is a -- just a stand-alone appliance that just gets shipped through the channels or directly from Net6 to customers.

Curtis Shauger - *CIBC World Markets - Analyst*

Okay, so the actual physical product, though, is outsourced somewhere? It gets shipped to you, you install the software and then you repackage it and ship from Net6? Is that correct?

Murli Thirumale - *Net6 - President, CEO*

That is correct.

Curtis Shauger - *CIBC World Markets - Analyst*

So I imagine, going forward, can we expect some inventory to be showing up? I know it's a small impact. But I'm just trying to get peoples' perspective on what to expect going forward on the balance sheet?

David Henshall - *Citrix Systems - VP, CFO*

That's a good question. As we have for the last, I'd say, eight quarters, new products that we've shipped that have gone into distribution, we have really used a build-to-order model. And so, we will seek to use a similar model to have a minimal impact on inventories and, therefore, the whole sell-in, sell-out sort of question you're asking.

Curtis Shauger - *CIBC World Markets - Analyst*

I was just more concerned about shipping software is even from a source that's actually a little more simplistic than an actual physical hardware product. I know that there is also this issue of managing channel inventory too. But I'm just trying to get an expectation of what we can expect on the balance sheet.

David Henshall - *Citrix Systems - VP, CFO*

Well, the hardware is commodity, all right? So, you can get a very short cycle on manufacturing and shipping these things. And burning the software onto it is also a pretty short-cycle item. And in the future, if volumes go up, we will probably be able to engage the manufacturer of the physical hardware to actually do the software burning and testing, which will further shorten the cycle as well.

Curtis Shauger - *CIBC World Markets - Analyst*

Is the product built on some underlying O/S that we might need to be aware of?

Mark Templeton - *Citrix Systems - President, CEO*

It's built on a LINUX kernel.

Curtis Shauger - *CIBC World Markets - Analyst*

Any particular or just the general distribution?

Murli Thirumale - *Net6 - President, CEO*

It's our own distribution with some proprietary version of the distribution where we have made significant modifications for security and performance purposes.

Curtis Shauger - *CIBC World Markets - Analyst*

And how does the licensing work from that perspective?

Murli Thirumale - *Net6 - President, CEO*

The licensing for the product is actually very, very simple. You buy the gateway and you by user licenses.

Curtis Shauger - *CIBC World Markets - Analyst*

But I guess in the -- within the context of the GNU/GPL, relating to the LINUX kernel, I mean, is there -- like, how do you typically recognize revenue? Normally -- is there a clear distinction enough away from the LINUX kernel that you don't have to get into the GNU/GPL ratable recognition of license?

Murli Thirumale - *Net6 - President, CEO*

I think, if I understand the question right, I will say that we have complete ownership of the IP in the product. It's our own, or we have fully -- free and clear licenses to be able to ship what we do ship. So really, there are no royalty or licensing implications. And we owned the IP free and clear.

Operator

Brent Williams, KeyBanc Capital Markets.

Brent Williams - *KeyBanc Capital Markets - Analyst*

Okay. Let's see, the voice piece -- how much of a factor is that today in your deal mix, either by percentage of dollars or by percentage of deals that that is really a linchpin of? Hello?

David Henshall - *Citrix Systems - VP, CFO*

It's about 50-50.

Brent Williams - *KeyBanc Capital Markets - Analyst*

Okay. And then, now Mark, this may be an Alzheimer's moment on my part -- they seem to be happening more frequently these days. But I vaguely recall maybe a year -- year and a half -- ago, you saying as you brought out the whole access strategy, that looking at Secure Access Manager the whole point was to avoid sort of planting the flag and saying we are in the VPN business. Or we are better than VPN, we don't need that. And the idea was to avoid awakening some of the Giants, like the Ciscos and all that. Does this change that issue? Do you think that's still an issue like that?

Mark Templeton - *Citrix Systems - President, CEO*

Well, no, I don't think it's a senior moment at all. I think you choose your timing around when you do these kind of things. It is clear that as we continue to grow and as we continue to build out a complete system for access at Layer 5 and 6 and 7, okay? We will definitely have some intersection with some of the giants. But, my view is that we have -- there's more cooperation and synergy with the giants because we are actually at Layer 6 and 7 -- that is why it is called Net6 -- Layer 6 and 7 kind of players at the application access layers, versus security and networking players that you are referring to Brent, are strong at sort of Layer 1 to 5. So there will be a little bit of coopetition (sic) for sure. But I think overall, we will be able to be quite complementary to most of what those giants actually do with a customer.

Brent Williams - *KeyBanc Capital Markets - Analyst*

Okay. And then lastly, for Murli -- you mentioned a number of patents in the hopper. Can you tell me how many have been granted and how many have been applied for?

Murli Thirumale - *Net6 - President, CEO*

Most of our patents have not been granted, because like most startups, we haven't had that soap time with the patent office. But we have applied for several patents. I would say that we have well over 50 claims across all these patents.

Brent Williams - *KeyBanc Capital Markets - Analyst*

So is that something on the order of a handful actual patent apps?

Murli Thirumale - *Net6 - President, CEO*

That is correct. Yes, spanning both secure access, transformation technologies, as well as some of the fairly unique things we do around voice over SSL.

Brent Williams - *KeyBanc Capital Markets - Analyst*

Okay, great. That's it for me. Thanks.

David Henshall - *Citrix Systems - VP, CFO*

Well, I think we're just about out of time here. So we will wrap up the gone call now and thank you all for joining us today, for the excellent questions and your interest in Citrix as we continue to define the access infrastructure marketplace. So thanks again, an have a great day.

Operator

Thank you for participating in today's Citrix conference call. You may now disconnect.