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Citrix Systems, Inc. Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question comes from the line of Sarah Friar with Goldman Sachs.

Sarah Friar - Goldman Sachs

Good quarter. If I could just turn to the operating margins, you talked about lower 20% range for 2008 and then extending back upward again in '09. If you exclude that XenSource piece, would you still see some decrement to the margins as you invest in the NetScaler business? Or would the idea be to be more or less keep those flat, and then, if the XenSource piece is dropping, you back down?

David J. Henshall - Senior Vice President and Chief Financial Officer

Yes, I think? Sarah, this is Dave. I think the large? the largest part of this statement is related to XenSource. If you just factor in the investments we are making, it's between 100 and 200 basis point impact on our margins on an adjusted basis 2008. I think where we are right now running this year between 23% and 24% is appropriate given the large investment year that we have been making. I think when we look forward, the opportunity that we have in front of us to continue to build out the go-to-market footprint across application networking, in particular and really across product development efforts throughout the Company, I think we see a lot of places where further investment will help drive long-term growth market share and sustainability. So, that's the high level that really what we are thinking about going into 2008.

Sarah Friar - Goldman Sachs

But if all thinks for equal about XenSource you still be look at kind of a similar margin footprint what we saw in '07, maybe slightly bigger given that there you are getting the topline growth rate, is that fair?

David J. Henshall - Senior Vice President and Chief Financial Officer

Yes, I mean we've had a pretty big range for the last few years right now. We are probably operating closer to the lower end of that range as we focus on driving investments to grow topline. And I think we've got a lot of opportunities as I have said a couple of times to expand and grow market share for this points. So, I think that's a fair statement.

Sarah Friar - Goldman Sachs

Okay. But the low end of your range was always mid 20, so, you haven't dropped below that for the quarter?

David J. Henshall - Senior Vice President and Chief Financial Officer

Well, I mean this is a? we are talking about an investment year in 2008, layering on the temporary XenSource dilution. And so, those are pushing us to the lower part or below that range on a temporary basis.

Sarah Friar - Goldman Sachs

Okay. And then, Mark, just on XenSource in terms of go-to-market for that \$50 million, how do you think about it in terms of direct versus indirect versus OEM and when we might hear more about some of those OEM and channel partners that you are signing up?

Mark B. Templeton - President Chief Executive Officer

The way we think about it is a little over half of the revenue, we believe can come through our traditional one and two tier partnerships around the world, and the other focus on go-to-market integration is they are getting a fast ramp. In the mean time, the XenSource team has done a great job on sort of the other half of the part of the business laying the groundwork for OEM and on actually in online business, selling sort of direct from an online store. To think about that is the other half maybe a little bit left either directly coming through as revenue or influenced revenue when you look at some of the resellers that will be keyed up under the OEM agreements. So, that's the way we are thinking about it. And I think there will be more to say about it. Fortunately, we can't? we haven't closed the deal, we can't make any announcements here, but stay tuned, there is lots more coming.

Sarah Friar - Goldman Sachs

Sure. It sounds great. Well, thanks a lot.

David J. Henshall - Senior Vice President and Chief Financial Officer

Thank you, Sarah.

Operator

Your next question comes from the line of Phil Winslow from Credit Suisse.

Philip Winslow - Credit Suisse

Hi, guys. Just want to spend a little on Presentation Server you obviously seem sort of mid teens growth, year-over-year past couple of quarters. I just wondered is your expectations for what you look to the December quarter and when you do think about this business longer term?

David J. Henshall - Senior Vice President and Chief Financial Officer

Sure. Phil. It's Dave. Let me take first part of that question. Yes, we are extremely happy with the performance of the business over the last couple of quarters. I think that the big story there continues to be around Platinum. We have talked about Platinum being nearly 20% contribution from the overall license mix within that business. Right now, as customers are looking at the broader solution instead of the tactical more? more tactical focus point products. And so, that's driving a increase in deal size and an increase in overall ASP. I think that's? it's an early trend. We have got a couple of data points now. We are going to watch it over the next few quarters just to see how it develops.

Mark B. Templeton - President Chief Executive Officer

The expectation for Q4 right now is more back to normalize growth rate on a year-to-year basis. Really a statement of the great Q4 we had in 2006. If you remember we had really strong growth then. So, we're looking at kind of lower single digit growth on a year-over-year basis for Q4 '07. And then longer term, still think this is a mid single digit growth business for licenses. And then low double digits when you include the subscription businesses as well. But early trends on the Platinum, very encouraging and hopefully, we'll have a lot more to say about that in the next couple of quarters.

Philip Winslow - Credit Suisse

And then also ANG was obviously particularly strong in this quarter. You'll talk about benefiting from the investment by that the internet? the portals, a quarter, quarter before the Q4 surge. How do you think about that in Q4 just given the sort of the extreme performance that you have this quarter?

Mark B. Templeton - President Chief Executive Officer

Yes, again Q3, great performance. We saw a lot of good blend actually between enterprise internet centric accounts, about 50-50 I think I mentioned earlier. And so, Q3 historically has been a really strong quarter for us and I think it continued to be this period. In Q4, from a license standpoint, I'd

expect growth to be north of 40% year-over-year, while it will be somewhat muted on a sequential basis. We really do measure the business and manage it year-over-year. So, 40% growth, looking to continue to take some market share in Q4.

Philip Winslow - Credit Suisse

All right. Thanks guys.

Operator

Your next question comes from the line of Adam Holt with JP Morgan.

Adam Holt - JP Morgan

Thank you. I'll also ask a question on Presentation Server. How would you characterize where we are in terms of the penetration related to this product cycle? And how long do you think we should expect the 4.5 impact to be from a sort of quarter-to-quarter perspective?

David J. Henshall - Senior Vice President and Chief Financial Officer

Adam, I think most people would say, in spite of the tremendous uptake we've seen in 4.0 and 4.5. We are still early in the cycle. Certainly, Platinum is helping to get customers to upgrade and move forward maybe ahead of when they normally would, which would typically be on an infrastructure refresh, either server or server operating system or both. So, I think we are still at the front end and I think that will lead us into 5.0, which will move the bar higher. And I think we will be sort of on this endless cycle, never really catching up to the opportunity. And always staying out ahead of kind of how Microsoft enhances the platform and make sure that we are leveraging the platform. So, we are preparing as you know in a very significant way for next year's launch of Window's server 2008 with? obviously a product announcements and so forth that we are very confident in. And so, I would say that the goal here is to continue to elevate the strategic value and strategic positioning of App Virtualization and allow Presentation Server to arrive that wave and the results to be manifested in that.

So, that's why we are pretty excited about Platinum. And I would say that if we are continue to stay on the trajectory by increasing the mix of Platinum in the overall Presentation Server and mix, that will be core indicator of our success there. And we will show next week at the conference how we intend to do that even further with some announcements and demonstration and so forth. So, I think will be able to continue this trajectory.

Adam Holt - JP Morgan

Terrific. And if I could just for a minute shift back to the out here commentary understanding you are trying to get away from given specific guidance for calendar '08, but you did give us some share count information, some tax rate information, and some margin commentary. Would you be comfortable talking about what you would expect earnings growth to be for calendar '08?

Mark B. Templeton - President Chief Executive Officer

Not yet at this point in time, Adam. I think right now we are just trying to give an initial look in the 2008. Honestly, we haven't even finished our internal 2008 planning. This is simply an early stage prudent outlook into the next year, and we give lot more granularity come? the January call.

Adam Holt - JP Morgan

Okay. Well then, if I could just go back to the margin commentary to clarify because there had been a little bit of violent reaction in the after market to your comments. So, if you look at the margins this year, you basically would suggest that you are going to see 100 to 200 basis points of decline on a year-over-year basis to reflect XenSource, so you margins will effectively be down 100 to 200 basis points next year?

Mark B. Templeton - President Chief Executive Officer

Well, I think we are talking about a range somewhere in the lower 20s now. And frankly, we have been operating kind of in the lower 20s throughout 2007, and this is a early stage comment about the opportunity we have in front of us. I think that number of places that we could invest to drive higher revenue growth, longer term sustainability are pretty pronounced. I think it is incumbent upon us to make sure that we are investing enough into that cycle. That said, we are seeing lots of traction as evidenced by Q3 and across the App Virtualization business, the App Networking and a lot of the investments we have been making this year starting to really pay off. So, is there opportunity to expand margins into next year? Sure. But we are going to balance that with the potential investments we maybe making. And again, these are early stage comments, and we will give a lot more granularity as we work through the plan.

Adam Holt - JP Morgan

Terrific. Thank you.

Operator

Your next question comes from the line of Rob Owens with Pacific Crest Securities.

Rob Owens - Pacific Crest Securities

Yes, good afternoon everyone. I wanted to dig a little deeper into the Application Networking Group. I understand that there was a few carryover items from the prior quarter with 8.0 shipping late and the WANScaler deferral. Can you help me understand maybe just what the run rate businesses for Q3? And then maybe what we should expect for Q4? It sounded like from your commentary that it could be up sequentially from these levels.

David J. Henshall - Senior Vice President and Chief Financial Officer

Yes, I think there was? remember carryover was, we talked about deferral of revenue around WANScaler couple of million dollars in Q2 that we didn't recognize. We did recognize in Q3. So, a couple of million there. The other phenomenon was around just say a wait of availability of 8.0 platform and in normal circumstance, we see a positive orders as customers look any WAN order than new platforms. So, I think that the run rate business was pretty down close to the reported numbers. We said great strength across the globe and really led by NetScaler products.

Mark B. Templeton - President Chief Executive Officer

The other thing that I would add is the investment we made early in the year bringing on almost 30 specialist in the App Networking team in the EMEA specifically, really started to pay off in Q3, and we are just going do and see and do more of that, which should help us specially on the enterprise side, which is? where we are in huge opportunity remains for us.

Rob Owens - Pacific Crest Securities

And you are seeing that out more so on the NetScaler side or you certainly see more traction on the WANScaler side. Can you get some sense of maybe what booking did sequentially for WANScaler?

Mark B. Templeton - President Chief Executive Officer

Well, obviously WANScaler still look quite a young and new product for us. And it's small in the shadow of NetScaler which is overwhelming majority of revenue from App Networking.

Rob Owens - Pacific Crest Securities

Thank you.

Operator

Your next question comes from the line of Katherine Egbert with Jefferies.

Katherine Egbert - Jefferies & Co

Touch one more time on the operating margin? Dave, you said that it would be down a bit in '08. But then you said it would recover in '09. Can you give us a sense what you mean by recovery in '09? Will you makeup that 100 to 200 basis points and then some?

David J. Henshall - Senior Vice President and Chief Financial Officer

Well, I think, Katherine, this is the business that has got a lot of leverage potential in it. And when we are talking about 2008, I mean, obviously the biggest impact is that. We are investing against a enormous opportunity right now. And as we do that and build that out, we are obviously going to have the short-term dilution. Our plan right now, it would be to show flat to accretive in 2009 for the Xen business, and that's biggest single swing factor. Yes, I think that you can certainly see some margin expansion in 2009 and beyond. Again, I mean that's a long time from now, but that's the way we are thinking about it.

Katherine Egbert - Jefferies & Co

Okay. And when do you expect XenSource to close, I mean is it going to close this week like, but before iForum?

David J. Henshall - Senior Vice President and Chief Financial Officer

We've got California fairness hearing this Friday. So, I would say we are virtually done.

Katherine Egbert - Jefferies & Co

Okay. So that means that once it's closed then there are press announcements, of course, will become press announcements, right?

Mark B. Templeton - President Chief Executive Officer

That's correct.

Katherine Egbert - Jefferies & Co

Okay. And then last one, can you just comment on the taxes? You consistently see 23% to 24% on, but they are consistently below that. Are you seeing conservative and as you do more offshore, does the taxes come down over time?

David J. Henshall - Senior Vice President and Chief Financial Officer

Yes, the single biggest factor is just where the earnings are coming in. On a geographic basis, we obviously have a lot lower tax rates in the international markets. And we had great quarters coming out of the specific region and the EMEA region in Q3, and so, there just more income there driving the tax rate lower. Yes, I think there is the potential for it to come down from our forecasted rate. But at this point in time, I mean, we are comfortable with that. We do think there will be more income coming from the North America markets in 2008 and beyond. So, at this point in time, kind of the 24% and 25% range is probably the right place to be.

Katherine Egbert - Jefferies & Co

Okay. Thanks Dave.

Operator

Your next question comes from the line of Shaul Eyal from CIBC World Markets.

Shaul Eyal - CIBC World Markets

Thank you. Hi, good afternoon, guys. Two quick questions in my end. Deals size is obviously getting bigger and with that also the App be the? the ASP as you mentioned. Can you maybe quantify for us the approximately maybe on average the ASP this quarter by how much they have been kind of going up?

Mark B. Templeton - President Chief Executive Officer

It depends what business you are looking at. I mean really in the aggregate, we still have an average deal size of somewhere between \$50,000 and \$75,000 and to? obviously a great number of transactions. Our largest deals in the quarter and then you have 10 to 12 transactions over \$1 million this period. So, a number of pretty big deals companies looking at the platform very strategically. But overall, I think probably the most important subset of that would be around the App Virtualization business. And the impact that we have seen from some of the product marketing changes in the

Presentation Server family as well as the impact from Platinum has moved that ASP and average deal size up by more than 10% over where we were this quarter last year.

Shaul Eyal - CIBC World Markets

Got it. Fair enough. And obviously great success within EMEA region. Can you make this specifically tough on the countries within Europe that's enhancing notable strength this quarter?

Mark B. Templeton - President Chief Executive Officer

Certainly we saw pretty balance growth really, frankly, across the globe and around the specific regions. When I look across like the largest deals the Southern part of Europe had a few Central Europe had a couple as well. So, a good balance of business really.

Shaul Eyal - CIBC World Markets

Got it. Thank you very much. Good luck.

Mark B. Templeton - President and Chief Executive Officer

All right. Thank you.

Operator

Your next question comes from the line of Michael Turits from Raymond James.

Michael Turits - Raymond James

First question is just on the fourth quarter where you are at about 8% sequential growth which is lot lower than you have seen typically in the fourth quarter. And you may some of that comes from the? catch up on deferred revenue page from NetScaler, but it still seems a little low there. So, are you just thinking conservative, why should we see less seasonality?

David J. Henshall - Senior Vice President and Chief Financial Officer

I am sorry. Can you repeat the first part of your question?

Michael Turits - Raymond James

Okay. Let me try again. Just one question which is fourth quarter you have got into about 8% sequential growth in the midpoint. I understand? I think which lower than typical. There is some catch up I know because of the WANScaler recognition boost the things for couple million of dollars. But it does seems that a big conservative relative to you prior seasonality patterns.

David J. Henshall - Senior Vice President and Chief Financial Officer

Yes, I mean WANScaler piece, frankly, was the insignificant part of the numbers right now. I think that Q4 are current guidance is going to point you for total revenues somewhere about 18% to 19% year-over-year growth. We are looking at the business more across the portfolio. That's consistent with the growth we have seen historically and we are very comfortable with the pipeline any opportunities going into Q4. It's always our biggest quarter, and we are? we just look to start closing business right now frankly.

Michael Turits - Raymond James

Okay. And then just a clarification on margin and dilution, I think that the early you did say that the 23% to 24% on the core business which is about where you have been currently looks good going into 2008. Just wanted to clarify that, is that correct?

David J. Henshall - Senior Vice President and Chief Financial Officer

Yes, I think the core business is unchanged and like I said a couple times earlier I think there is opportunities to continue to expand margins, whether it's in '08 or into '09. But we are very, very focused on driving growth in market share at this point in time, and we will balance investments against the opportunity, of course. But we are going to maintain our standard focus in the long-term growth and sustainability.

Michael Turits - Raymond James

I just wanted to make sure instead I miss this [ph]. You said this now also that you thought Xen would be flat to accretive in '09. And kind of check where you were before I thought you said just accretive, but does that? Xen also flat to accretive?

David J. Henshall - Senior Vice President and Chief Financial Officer

No change in our prior stats. No change.

Michael Turits - Raymond James

Okay. Thanks a lot.

Operator

Your next question comes from the line of Brian Essex from Morgan Stanley.

Brian Essex - Morgan Stanley

Good afternoon guys. Just want to get a sense around deferred revenue. It looks like it's relatively flat over last quarter, similar dynamic to what we had last year when licenses were substantially down. That just because a sequential decline or whether a lot of one year deals in that fell off the balance sheet, or there is some different dynamics happening there that causing that build to flatter than expected?

David J. Henshall - Senior Vice President and Chief Financial Officer

Yes, deferred revenue is really a function of the timing of the opportunity pool for subscription advantage. So what I mean by that is the when customers are coming up a renewal and Q3 each year is the low point for when the opportunity pool it. You go back and look at deferred revenue growth over prior year, so you will see the Q3 generally is flat. Q4, however, large opportunity pool I would expect significant growth in deferred revenue in the quarter. So, just a timing issue.

Brian Essex - Morgan Stanley

Okay. And then with respect to the conclusion of your stock option review process. Was there a lot of pent up exercises there on the employee side than you offset or is it pretty stabilize due to relatively quick timeframe in which we are able to conclude that?

David J. Henshall - Senior Vice President and Chief Financial Officer

There were some employee exercises not being that's if my radar has been terribly out of the ordinary. We did conclude that pretty close to when we went into our normal quarterly block out period, which is why we entered into structured share repurchase program instead of doing an open market one. Nothing, terribly interesting there.

Brian Essex - Morgan Stanley

Okay. Thank you.

Operator

Your next question comes from the line of Daniel Ives with Friedman, Billings.

Daniel Ives - Friedman, Billings, Ramsey & Co

A good quarter. I had a question just on enterprise spending and with everything went on treaty, you guys had a great quarter. But just? and talking to the customers and talking to the sales guys, was there any some more change throughout the quarter in regards to spending, trepidation? I mean obviously didn't show in your results but just more from a macro perspective, I mean, what's the feel there as you guys are seeing industry things?

Mark B. Templeton - President Chief Executive Officer

Daniel, this is Mark. As I travel during the quarter, I didn't see any change in outlook. Certainly, from a macro point of view everyone is concerned about sort of the state of equity markets and kind of how the Fed and sort of their analogs around the world are responding and trying to manage what's pretty volatile environment. So, there I think there is a lot of concern, but in kind of lower to the ground. I think every customer I talk to is? has been bullish about their business and even into 2008. So, we

are feeling the same way based upon the kind of value proposition that our products offer whether it's to reduce the cost of IT operations or to gain kind of agility to respond to business opportunity kind of on the upside. So, we are blessed with having infrastructure that adds value in both dimensions, which is unusual and unique in the industry and part? parcel of having a strong infrastructure play, which really is the underlying rationale for the kind of guidance we are giving as we look out and establish three year goals for the Company and look at the businesses that we understand extremely well and are obviously historical App Virtualization business where we know how to scale it, we know exactly what's involved. And we are going into a period where we are going to be launching a whole new version of it running Microsoft Windows Server 2008.

The online business, again, a business whose model we understand extremely well. We know kind of what we get out based upon what you put in, and we think there is a tremendous opportunity there and that's sort of the next layer. App Networking, we took probably I would say a good 18 months maybe even two years most people would say to really get confident about how we go-to-market in terms of what partners the products, how to train, certify them, hiring our own people App Networking specialists and putting them in the field. And I think we understand now the metrics around doing that and we are going to? the market is huge and very strategic to us. So, that's the kind of next layer. And then finally, I don't need to explain the opportunity in market size for desktop and server virtualization being sort of the newest market we are entering in. We are not? we think we have a great combination with XenSource and the ability to combine technologies that are core to Citrix today with XenSource core technologies along with the great channel and Microsoft partnership, and we should be investing in that. And so, we are going to? we think we are doing exactly the right thing for getting the fastest growth rate on the topline, which then translates into a long-term market position that you monetize over and over and over again. So, we are in that mode, and that's what Dave it's been trying to explain and what we are very, very confident in doing.

Daniel Ives - Friedman, Billings, Ramsey & Co

And just a final question. With the user conference next week, is the timing of the acquisition, are you? have you tried to proactively on the XenSource side get customers come to the user conference? Have you seen there could be a good opportunity I am just curious how you are handling that, just given the timing and everything?

Mark B. Templeton - President Chief Executive Officer

The answer is yes, but remember the XenSource customer base just across the 1,000 mark. And so, really what we are doing is getting the word out, attracting during this conference, the Citrix customer base, which is much, much larger and we are going to show that those attendees how we are going to bring them server and desktop virtualization in a complimentary way to App Virtualization, and how we can tie all three together in a very, very powerful infrastructure. And then, obviously, each year we up level the type of attendee that comes to this conference. So, this year you would see a record number of IT executives where architectural strategy where business relevance around how technologies can impact business strategies are really important. And so, that's what we will be showing. And obviously, we? taking the bait off of some really exciting new things. We have a tremendous line up of media and industry analyst that will be there, partners from around the world within the industry and from within our go-to-market, ecosystem, and overall, should be a pretty exciting week and everyone totally geared up for it.

Operator

Your next question comes from the line of Kirk Materne from Banc of America Securities.

Kirk Materne - Banc of America Securities

Thanks very much. I don't want the answer this, but Mark and Dave, could you just talk about on the networking side, the improvement there? I guess how much of that was the channel finally starting to get a hold of it in places like Europe and Asia-Pac versus say building out the direct sales force, just give me some more color on that?

Mark B. Templeton - President Chief Executive Officer

Well, Kirk, you take sort of half of it and our model around the internet centric marketplace that the teams that do that or second-to-none and have done a tremendous job there. So, the other half of the business is really the enterprise business, and we are seeing two things. First of all, EMEA is coming on and I think it's the first quarter where EMEA can probably stand up and say we made an impact in the App Networking business. And that came strictly from great execution around hiring the right people, putting them in the right place both SE's and in channel partner in people in EMEA. And then, the other piece of came from partners in the U.S. that have just continue to mature in their knowledge of all of these products and are able to take them to market more and more independently. We also had a couple of late architectural wins with very large enterprises which really set the stage for repeat orders and a platform for references to other enterprise customers. So, that's what we saw in the quarter kind of inside the App Networking business, from a color of commentary point of view.

Kirk Materne - Banc of America Securities

Okay. And then just one final on XenSource. I assume with the deal getting close shortly. Would the main impetus in terms of training of partners be at your traditional Solution Summit Meeting, is that what you guys are aiming for or do you think you can accelerate that a little bit in front of that?

Mark B. Templeton - President Chief Executive Officer

Well, we'd set some aggressive goals out to exit this year with 1,000 partners authorized on the XenSource products and to exit Q1 with an additional 1,000. So, as you can imagine we've already be on this process working closely with Peter and his team. And that includes having highly leverages ways to train and authorize partners. And as I think I mentioned earlier many partners that are already certified to sell VMwear products and trying get to be very, very easy to become authorized to sell XenSource products. In fact, they're simpler to implement, faster to implement, and still offer partners a great platform for offering services. So, we are doing some things however that are in the investment side to make certification and training our partners much easier and much more leveraged for us and we will be announcing those once we close the deal, and so, stay tuned on that.

Kirk Materne - Banc of America Securities

Very good. Thanks very much.

Operator

Your next question comes from the line of Todd Raker with Deutsche Bank. Todd Raker your line is now open for questions.

Todd Raker - Deutsche Bank

Hello. Dave, just quickly one financial question from an FX perspective. Any impacts on revenue?

David J. Henshall - Senior Vice President and Chief Financial Officer

No, we bill pretty much in U.S. dollars around the world. So, there's no way to impact the topline. We do have a lot of local currency expenses. So, there is? while we do hedge out two year in advance we have had some impact on expense as they have gone a bit higher. So, a slightly negative in the quarter, but nothing that I would call out.

Todd Raker - Deutsche Bank

Okay And then Mark, just very quickly. When you guys talked about the XenSource acquisition, you talked about spending Xen the open source project into some type of independent entity or oversight. Can you give us some insights into how you guys are progressing on that front?

Mark B. Templeton - President and Chief Executive Officer

That part of the project is progressing very well. Obviously, we're working closely with all the major? are contributors to the open source project. And I can say all ready opened a new website for xen.org. And we've made just great progress in a lot of details a lot of this gets down to the details of how the project is managed. And I think all of the contributors are feeling pretty good about what we are doing there. And including Intel, AMD, HP, IBM et cetera. It's one of those where we'll evolve. We'll take one big step. And Citrix as part of the investment, we promised to fund it, including people and process and management and up leveling the sophistication around all of that. And to give it a level of independence that it hasn't had. I think necessarily hasn't had in order to actually get it to where it is. That's needed strong leadership, via a deeply scientific team that invented it to get to where it is, and I think that now as we go forward, there is more interest in it with the .org, we will be able to gradually put it more into an independent status. So, I think we doing really well there, Todd.

Todd Raker - Deutsche bank

Okay. Great. Thanks.

Operator

Your next question comes from the line of Richard Sherman with MKM Partners.

Richard Sherman - MKM Partners

Dave, primarily on the NetScaler side of things. You had indicated I think earlier in the call that you thought to that will be taken through market share as we headed into the fourth quarter, and in light of the fact that you are in a nice products cycle here on NetScaler, should we infer from that some additional promotional type of activity going into the fourth quarter?

David J. Henshall - Senior Vice President and Chief Financial Officer

Richard, not specifically, we do have a promotional program. It's a channel based bonus program we call Spam. And it's been running all of year and it really is a bonus that encourages and rewards Citrix partners for investing in their network practices, which is typically where NetScaler and WANScaler and Access Gateways sales originate from. But other than that, we don't have any other specific promotional programs, the rest of the expectation around NetScaler specifically NetScaler growth in Q4, as a reflection of the pipeline and all the work that's been done, going before because that typically a NetScaler sale, it is not an overnight sale, and usually range from 90 to a 120 days, I would say on the enterprise side and can't be longer the enterprise is a much larger scale where they are making standards type decisions and across maybe multiple data centers.

Richard Sherman - MKM Partners

Okay. And then one more maybe you have given us some good hindsight to the performance in a by region international versus U.S. Could you provide maybe some clarity or some hindsight as well from the perspective on maybe the various vertical markets obviously financial government or probably the top of those people's minds?

Mark B. Templeton - President and Chief Executive Officer

We had a decent quarter for Federal? U.S. Federal government and so, which we typically do in Q3. On the financial services market, this question has come up quite a bit, we haven't? despite the disruption and bankruptcy and all of this and sort of the mortgage brokerage, end of the world and so forth, we have yet to see any impact whatsoever or even here anecdotes. We are aware that a number of these companies are customers and? but they typically many of them brokerage firms you are tended to be smaller ones and with the large ones, we haven't seen any change whatsoever. So? and then overall financial services market, for us is somewhere around figure 10% to 12% depending upon the of our overall business mix and it remains strong because remember we have got global business and we do business with financial institutions around the world, and for every one that's

having a headache, let's say in U.S. markets there are multiples that are actually expanding and doing well in international markets and that's the benefit of having a global brand.

Richard Sherman - MKM Partners

Okay. Great. Thank you for taking my questions.

Mark B. Templeton - President and Chief Executive Officer

Thank you.

Operator

Your next question comes from the line of Walter Pritchard from Cowen.

Walter Pritchard - Cowen and Company

I maybe start investing in the online business in Europe. I am wondering if you start to see any revenue contribution from that geography in that business.

David J. Henshall - Senior Vice President and Chief Financial Officer

Little bit, it's starting to pickup. It's still just a very, very minor percentage of the overall total. I think that 2008 as we build up the customer base when you start to see more of the material and material contribution.

Walter Pritchard - Cowen and Company

Got you. And then just along? around the Platinum, you mentioned a 20% of the AVG business was Platinum. I am wondering if you have any internal goals you care to share or if we look forward in the next year, what you think Platinum could be as a percentage of that business.

David J. Henshall - Senior Vice President and Chief Financial Officer

Well, I think just strategic question actually and it's the answer is? it's the higher percentage. I mean we are still working through with the actual specific numbers is right now. But over a long period of time, I think we've got a lot of opportunities to move that North of 25%, and we are going to do that through a combination of product integrations by providing great solution that solves real problem for customers, marketing efforts et cetera. And it's going to be important part of not only the App Virtualization business but the App Networking business as well and the new Platinum Version there. So, it's a key focus as we head into 2008.

Walter Pritchard - Cowen and Company

And just lastly, Mark, around Windows Server 2008, you start to talk a little bit about on this call. I know it's been a lot written and talk about in terms of competition between the two and I guess I am less interested in that aspect and more interested in maybe your views on how you think the release? we haven't seen the Microsoft Server release about five years. How that release of Window server 2008 may impact the WAN customers purchase either do they accelerate purchases or differ purchases of Presentation Server or is that not something that you expect to be impacted?

Mark Templeton - President and Chief Executive Officer

Yes, Walter, I think this will be the third significant Windows Server release that will go through with Microsoft. And we have never seen disruption as a result of the server release. I believe the primary reason is because customers will tend to take their time on? especially on a server release, and with Windows Server 2008, because the architectures has been changed in a good way. So, dramatically, I think they will actually take a little bit longer. And so, I think they will kind of go along with their normal sort of production systems and begin to feather in Windows Server 2008, and that will certainly be our strategy and will that play out next year when we make all the announcements as part of the Microsoft launch, which we are gearing up for and pretty excited about and we want to be able to offer customers the ability to bridge and have both platforms running in their data center and to do that seamlessly and obviously the new products that we have coming on line around like provisioning server or the XenSource technologies etc. will make it a lot easier for us to help

customers make that migration. And that's a key part of our game plan for the next few years. So, I don't ? We don't see any disruption, see this as a positive force.

Walter Pritchard - Cowen and Company

Right. Thank you very much.

Operator

Your next question comes from the line of Scott Zeller with Needham and company.

Scott Zeller - Needham and Company.

Thanks. Regarding Xen could you just verify? we were told somewhere between \$1 million to \$2 million revenue contribution for 4Q.

David J. Henshall - Senior Vice President and Chief Financial Officer

Yes. That's right for the partial period.

Scott Zeller - Needham and Company

Okay. So? and that's a two month contribution, right?

David J. Henshall - Senior Vice President and Chief Financial Officer

That's correct.

Scott Zeller - Needham and Company

Could you just give us some color as to why the impact may not be greater with two months contribution? Because with us looking for 50 in '08 and this being a seasonally strong 4Q why would the number not be higher?

David J. Henshall - Senior Vice President and Chief Financial Officer

I think right now it's just a common carry on. We haven't closed the acquisition yet. We are just starting to get ramped up. Its very, very early days and it will need a quarter or two to have a lot of more experience and understand the dynamics of how it filters through our channel et cetera. we obviously have tremendous expectations for this business we are very confident in it. But in the partial period, I think a couple of million of revenue and obviously higher than that for our booking spaces? it's the right place to be right now.

Scott Zeller - Needham and Company

Okay. Thank you.

Operator

Your next question comes from the line of Stephen Ashley, from Robert W. Baird

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Stephen Ashley - Robert W. Baird

Hi, just a real quick question. Branch office in a box? Are we still hoping to have that available late this calendar year?

David J. Henshall - Senior Vice President and Chief Financial Officer

Steve, I think the branch office in a box project, Project evergreen. I think we said before that we expected to shift in the first half of next year, kind of, early next year. Right now the way it's looking is that it may actually slip a few months and we are obviously getting our road maps recalibrated for 2008 right now and looking at that. But the product is within Alpha tests right now and I think it looks great but there is still more work to do on it. It will be at the conference and in the labs and those who attend can actually talk to the team and see how it's going. But I think from a release perspective? point of view, we are probably looking more toward now a Q2 of next year release of the product.

Stephen Ashley - Robert W. Baird

Great. And David were the ten to twelve \$1 million deals, were any of those in the App net working group?

David J. Henshall - Senior Vice President and Chief Financial Officer

Let's see. I know that there were three customers that had purchases that aggregated over a million in the App net working group. Definitely there is a single transaction that was over, it was over a \$1 million in App networking.

Stephen Ashley - Robert W. Baird

Okay. Thank you.

Operator

Your next question comes from the line of Israel Hernandez, from Lehman Brothers.

David J. Henshall - Senior Vice President and Chief Financial Officer

Is he slipping?

Israel Hernandez - Lehman Brothers

Hey guys. Regarding the profitability the application networking group. Can you talk a little bit about the direction of where you think profitability will trend as we look into 2008. When do you think we are going to get to a respectable operating margin in that business and second, can you talk about WANScaler as quickly or are we still on track to get to \$8 to \$10 million for the full year.

David J. Henshall - Senior Vice President and Chief Financial Officer

Yes. I'll take the WANScaler first. It's still a small contributor, a couple of million a quarter over the last few quarters so I think \$8 million to \$10 million is the right range, as far as profitability for that business. I mean they had a very solid quarter as you saw in Q3 so profitability was way up. I think the place that we can? we have talked about investing and we will continue to invest as predominantly around to go to market side and I think it will show more and more profitability each quarter going through next year, outside of normal seasonality. So I feel very good about the progress we have made there.

Israel Hernandez - Lehman Brothers

Thank you very much.

Operator

Ladies and gentlemen, we have reached the end of the allotted time for questions and answers and we will now turn the call back over to management for closing remarks.

David J. Henshall - Senior Vice President and Chief Financial Officer

Well, once again thank you for attending the call this afternoon. Your continued support of Citrix on the tremendous journey we are on to establish application delivery infrastructure and the market places that surround it. Thanks and we will see you again in three months.

Operator

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

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