

CA, INC.
Form 10-Q
July 22, 2011

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from _____ to _____

Commission File Number 1-9247

CA, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-2857434

(I.R.S. Employer Identification Number)

One CA Plaza

Islandia, New York

(Address of principal executive offices)

11749

(Zip Code)

1-800-225-5224

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

(Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller
reporting company)

Smaller reporting
company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Title of Class	Shares Outstanding
Common Stock par value \$0.10 per share	as of July 15, 2011 504,696,161

**CA, INC. AND SUBSIDIARIES
INDEX**

	Page
<u>PART I. Financial Information</u>	
<u>Report of Independent Registered Public Accounting Firm</u>	1
<u>Item 1. Unaudited Condensed Consolidated Financial Statements</u>	2
<u>Condensed Consolidated Balance Sheets - June 30, 2011 and March 31, 2011</u>	2
<u>Condensed Consolidated Statements of Operations - Three Months Ended June 30, 2011 and 2010</u>	3
<u>Condensed Consolidated Statements of Cash Flows - Three Months Ended June 30, 2011 and 2010</u>	4
<u>Notes to the Condensed Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Overview</u>	23
<u>Executive Summary</u>	25
<u>Quarterly Update</u>	27
<u>Performance Indicators</u>	28
<u>Results of Operations</u>	31
<u>Liquidity and Capital Resources</u>	38
<u>Critical Accounting Policies and Business Practices</u>	43
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	44
<u>Item 4. Controls and Procedures</u>	44
<u>PART II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	45
<u>Item 1A. Risk Factors</u>	45
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
<u>Item 3. Defaults Upon Senior Securities</u>	46

<u>Item 4.</u>	<u>Removed and Reserved</u>	46
<u>Item 5.</u>	<u>Other Information</u>	46
<u>Item 6.</u>	<u>Exhibits</u>	46
	<u>Signatures</u>	47
<u>EX-10.1</u>		
<u>EX-10.2</u>		
<u>EX-12.1</u>		
<u>EX-15</u>		
<u>EX-31.1</u>		
<u>EX-31.2</u>		
<u>EX-32</u>		
<u>EX-101 INSTANCE DOCUMENT</u>		
<u>EX-101 SCHEMA DOCUMENT</u>		
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>		
<u>EX-101 LABELS LINKBASE DOCUMENT</u>		
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>		
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>		

Table of Contents

PART I. FINANCIAL INFORMATION
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

CA, Inc.:

We have reviewed the condensed consolidated balance sheet of CA, Inc. and subsidiaries as of June 30, 2011, the related condensed consolidated statements of operations and cash flows for the three-month periods ended June 30, 2011 and 2010. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of CA, Inc. and subsidiaries as of March 31, 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated May 16, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 31, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

New York, New York

July 22, 2011

Table of Contents**Item 1.**

CA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in millions, except share and per share amounts)

	June 30, 2011	March 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,761	\$ 3,049
Marketable securities current	84	75
Trade and installment accounts receivable, net	597	849
Deferred income taxes current	207	246
Other current assets	192	152
TOTAL CURRENT ASSETS	3,841	4,371
Marketable securities noncurrent	105	104
Property and equipment, net of accumulated depreciation of \$664 and \$632, respectively	426	437
Goodwill	5,695	5,688
Capitalized software and other intangible assets, net	1,275	1,284
Deferred income taxes noncurrent	249	284
Other noncurrent assets, net	261	246
TOTAL ASSETS	\$ 11,852	\$ 12,414
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt and loans payable	\$ 19	\$ 269
Accounts payable	104	100
Accrued salaries, wages and commissions	213	293
Accrued expenses and other current liabilities	413	395
Deferred revenue (billed or collected) current	2,475	2,600
Taxes payable, other than income taxes payable current	33	75
Federal, state and foreign income taxes payable current		124
Deferred income taxes current	69	68
TOTAL CURRENT LIABILITIES	3,326	3,924
Long-term debt, net of current portion	1,288	1,282
Federal, state and foreign income taxes payable noncurrent	410	414
Deferred income taxes noncurrent	66	64
Deferred revenue (billed or collected) noncurrent	909	969
Other noncurrent liabilities	130	141
TOTAL LIABILITIES	6,129	6,794
STOCKHOLDERS EQUITY		

Edgar Filing: CA, INC. - Form 10-Q

Preferred stock, no par value, 10,000,000 shares authorized; No shares issued and outstanding		
Common stock, \$0.10 par value, 1,100,000,000 shares authorized; 589,695,081 and 589,695,081 shares issued; 498,926,923 and 502,299,607 shares outstanding, respectively	59	59
Additional paid-in capital	3,562	3,615
Retained earnings	4,321	4,106
Accumulated other comprehensive loss	(48)	(65)
Treasury stock, at cost, 90,768,158 shares and 87,395,474 shares, respectively	(2,171)	(2,095)
TOTAL STOCKHOLDERS EQUITY	5,723	5,620
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 11,852	\$ 12,414

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

CA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in millions, except per share amounts)

	For the Three Months Ended June 30,	
	2011	2010
REVENUE		
Subscription and maintenance revenue	\$ 1,007	\$ 939
Professional services	90	78
Software fees and other	66	52
TOTAL REVENUE	1,163	1,069
EXPENSES		
Costs of licensing and maintenance	67	67
Cost of professional services	88	71
Amortization of capitalized software costs	50	45
Selling and marketing	326	290
General and administrative	114	117
Product development and enhancements	118	128
Depreciation and amortization of other intangible assets	47	44
Other expenses (gains), net	10	(11)
Restructuring and other	1	(3)
TOTAL EXPENSES BEFORE INTEREST AND INCOME TAXES	821	748
Income from continuing operations before interest and income taxes	342	321
Interest expense, net	9	13
Income from continuing operations before income taxes	333	308
Income tax expense	105	87
INCOME FROM CONTINUING OPERATIONS	228	221
Income (loss) from discontinued operations, net of income taxes	13	(4)
NET INCOME	241	217
BASIC INCOME (LOSS) PER SHARE		

Income from continuing operations	0.45	0.43
Income (loss) from discontinued operations	0.03	(0.01)
Net income	0.48	0.42
Basic weighted average shares used in computation	500	510
DILUTED INCOME (LOSS) PER SHARE		
Income from continuing operations	0.45	0.43
Income (loss) from discontinued operations	0.02	(0.01)
Net income	0.47	0.42
Diluted weighted average shares used in computation	501	511
See accompanying Notes to the Condensed Consolidated Financial Statements.		

Table of Contents

CA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in millions)

	For the Three Months Ended June 30,	
	2011	2010
OPERATING ACTIVITIES FROM CONTINUING OPERATIONS:		
Net income	\$ 241	\$ 217
(Income) loss from discontinued operations	(13)	4
Income from continuing operations	228	221
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	97	89
Provision for deferred income taxes	71	116
Provision for bad debts		3
Share-based compensation expense	25	19
Asset impairments and other non-cash charges	2	5
Foreign currency transaction losses (gains)	2	(2)
Changes in other operating assets and liabilities, net of effect of acquisitions:		
Decrease in trade and current installment accounts receivable, net	274	320
Decrease in deferred revenue	(214)	(310)
Decrease in taxes payable, net	(241)	(191)
(Decrease) increase in accounts payable, accrued expenses and other	(2)	3
Decrease in accrued salaries, wages and commissions	(82)	(105)
Decrease in restructuring liabilities	(6)	(34)
Changes in other operating assets and liabilities	(11)	(12)
NET CASH PROVIDED BY OPERATING ACTIVITIES CONTINUING OPERATIONS	143	122
INVESTING ACTIVITIES FROM CONTINUING OPERATIONS:		
Acquisitions of businesses, net of cash acquired, and purchased software	(29)	(9)
Purchases of property and equipment	(19)	(25)
Capitalized software development costs	(50)	(42)
Purchases of marketable securities	(37)	
Proceeds from the sale of marketable securities	18	
Maturities of marketable securities	11	
Other investing activities	(1)	(16)
NET CASH USED IN INVESTING ACTIVITIES CONTINUING OPERATIONS	(107)	(92)
FINANCING ACTIVITIES FROM CONTINUING OPERATIONS:		
Dividends paid	(25)	(21)
Purchases of common stock	(153)	(55)
Debt borrowings	154	
Debt repayments	(338)	(3)
Exercise of common stock options and other	9	4

NET CASH USED IN FINANCING ACTIVITIES	CONTINUING OPERATIONS	(353)	(75)
Effect of exchange rate changes on cash		37	(73)
NET CHANGE IN CASH AND CASH EQUIVALENTS	CONTINUING OPERATIONS	(280)	(118)
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	DISCONTINUED OPERATIONS	(12)	(5)
CASH PROVIDED (USED) BY INVESTING ACTIVITIES	DISCONTINUED OPERATIONS	4	16
NET EFFECT OF DISCONTINUED OPERATIONS ON CASH AND CASH EQUIVALENTS		(8)	11
DECREASE IN CASH AND CASH EQUIVALENTS		(288)	(107)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		3,049	2,583
CASH AND CASH EQUIVALENTS AT END OF PERIOD		\$ 2,761	\$ 2,476

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(unaudited)

NOTE A ACCOUNTING POLICIES

Basis of Presentation: The accompanying unaudited Condensed Consolidated Financial Statements of CA, Inc. (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as defined in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 270, for interim financial information and with the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the Company's Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2011 (2011 Form 10-K).

In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal, recurring nature.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, these estimates may ultimately differ from actual results.

Operating results for the three months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2012.

Divestitures: In June 2011, the Company sold its Internet Security business and in June 2010, the Company sold its Information Governance business. The results of operations for these businesses, and the related gain (loss) on disposal have been presented as discontinued operations in the accompanying Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows. The effects of the discontinued components were immaterial to the Company's Condensed Consolidated Balance Sheets at March 31, 2011. See Note C, Divestitures, for additional information.

Cash and Cash Equivalents: The Company's cash and cash equivalents are held in numerous locations throughout the world, with approximately 54% being held by the Company's foreign subsidiaries outside the United States at June 30, 2011.

Fair Value Measurements: Fair value is the price that would be received for an asset or the amount paid to transfer a liability in an orderly transaction between market participants. The Company is required to classify certain assets and liabilities based on the following fair value hierarchy:

Level 1: Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices for identical assets and liabilities in markets that are not active, or quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

See Note J, Fair Value Measurements, for additional information.

Deferred Revenue (Billed or Collected): The Company accounts for unearned revenue on billed amounts due from customers on a gross basis. Unearned revenue on billed installments (collected or uncollected) is reported as deferred revenue in the liability section of the Company's Condensed Consolidated Balance Sheets. Deferred revenue (billed or collected) excludes unbilled contractual commitments executed under license and maintenance agreements that will be billed in future periods.

Statements of Cash Flows: For the three months ended June 30, 2011 and 2010, interest payments were approximately \$25 million and \$35 million, respectively, and income taxes paid were approximately \$198 million and \$87 million,

respectively.

The Company uses a notional pooling arrangement with an international bank to help manage global liquidity requirements. Under this pooling arrangement, the Company and its participating subsidiaries may maintain either cash deposit or borrowing positions through local currency accounts with the bank, so long as the aggregate position of the global pool is a notionally calculated net cash deposit. Because

5

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(unaudited)

the bank maintains a security interest in the cash deposits, and has the right to offset the cash deposits against the borrowings, the bank provides the Company and its participating subsidiaries favorable interest terms on both cash deposits and borrowings. At June 30, 2011, there was approximately \$68 million of borrowings outstanding under this cash pooling arrangement which is included in the Accrued expenses and other current liabilities line item on the Company's Condensed Consolidated Balance Sheet. Borrowings and repayments were approximately \$154 million and \$86 million, respectively, for the three months ended June 30, 2011. At March 31, 2011, there were no borrowings outstanding under the cash pooling arrangement.

Non-cash financing activities for the three months ended June 30, 2011 and 2010 consisted of treasury shares issued in connection with the following: share-based incentive awards granted under the Company's equity compensation plans of approximately \$51 million (net of approximately \$25 million of taxes withheld) and \$61 million (net of approximately \$25 million of taxes withheld), respectively; and discretionary stock contributions to the CA, Inc. Savings Harvest Plan of approximately \$13 million and \$25 million, respectively.

NOTE B ACQUISITIONS

Acquisitions of businesses are accounted for as purchases and, accordingly, their results of operations have been included in the Company's Condensed Consolidated Financial Statements since the respective dates of the acquisitions. The purchase price for each of the Company's acquisitions is allocated to the assets acquired and liabilities assumed from the acquired entity.

The pro forma effects of the Company's fiscal year 2012 acquisitions to the Company's revenues and results of operations during fiscal year 2011 and 2012 were considered immaterial. The purchase price allocation of the Company's fiscal 2012 acquisitions is as follows:

<i>(dollars in millions)</i>	Fiscal Year 2012 Acquisitions	Estimated Useful Life
Finite-lived intangible assets ⁽¹⁾	\$ 11	9 years
Goodwill	16	Indefinite
Other assets net of other liabilities assumed	3	
 Purchase Price	 \$ 30	

⁽¹⁾ Includes customer relationships and trade names.

Transaction costs for the fiscal year 2012 acquisitions were immaterial. The excess purchase price over the estimated value of the net tangible and identifiable intangible assets was recorded to goodwill. The allocation of a significant portion of the purchase price to goodwill was predominantly due to the intangible assets that are not separable, such as assembled workforce and going concern. The goodwill relating to the fiscal year 2012 acquisitions is expected to be deductible for tax purposes.

The Company had approximately \$75 million and \$73 million of accrued acquisition-related costs as of June 30, 2011 and March 31, 2011, respectively, all of which related to purchase price amounts withheld subject to indemnification protections.

In June 2011, the Company announced a definitive agreement to acquire privately-held Interactive TKO, Inc., a leading provider of service simulation solutions for developing applications in composite and cloud environments, for

\$330 million. This acquisition is expected to close in the second quarter of fiscal 2012.

NOTE C DIVESTITURES

In June 2011, the Company sold its Internet Security business for approximately \$14 million to Udata Partners, LLC and recognized a gain on disposal of \$23 million, including tax expense of \$18 million. In June 2010, the Company sold its Information Governance business for approximately \$19 million to Autonomy Corporation plc and recognized a loss on disposal of \$5 million, including tax expense of \$4 million.

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

(unaudited)

The income (loss) from discontinued components, for the three months ended June 30, 2011 and 2010 consists of the following:

	June 30, 2011	June 30, 2010
	<i>(in millions)</i>	
Subscription and maintenance revenue	\$ 15	\$ 24
Professional services		1
Total revenue	\$ 15	\$ 25
(Loss) income from operations of discontinued components, net of tax benefit of (\$6) million and tax expense of less than a million, respectively	\$ (10)	\$ 1
Gain (loss) on disposal of discontinued components, net of taxes	23	(5)
Income (loss) from discontinued operations, net of taxes	\$ 13	\$ (4)

NOTE D RESTRUCTURING

Fiscal 2010 restructuring plan: The Fiscal 2010 restructuring plan (Fiscal 2010 Plan) was announced in March 2010 and is composed of a workforce reduction of approximately 1,000 positions and global facilities consolidations. These actions were intended to better align the Company's cost structure with the skills and resources required to more effectively pursue opportunities in the marketplace and execute the Company's long-term growth strategy. The total amounts incurred with respect to severance and facilities abandonment under the Fiscal 2010 Plan are \$43 million and \$2 million, respectively. Actions under the Fiscal 2010 Plan were substantially completed by the end of fiscal year 2011.

Fiscal 2007 restructuring plan: In August 2006, the Company announced the Fiscal 2007 restructuring plan (Fiscal 2007 Plan) to significantly improve the Company's expense structure and increase its competitiveness. The Fiscal 2007 Plan's objectives included a workforce reduction of approximately 3,100 employees, global facilities consolidations and other cost reductions. The total amounts incurred with respect to severance and facilities abandonment under the Fiscal 2007 Plan are \$220 million and \$120 million, respectively. Actions under the Fiscal 2007 Plan were substantially completed by the end of fiscal year 2010.

Accrued restructuring costs at June 30, 2011 and changes in the accruals during the three months ended June 30, 2011 and 2010 associated with the Fiscal 2010 and Fiscal 2007 Plans were as follows:

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(unaudited)

	Severance	Facilities Abandonment
	<i>(in millions)</i>	
Fiscal 2010 Plan		
Accrued balance at March 31, 2010	\$ 46	\$ 2
Activity for the period ended June 30, 2010		
Change in estimate	(3)	
Payments	(22)	
Accretion and other	(1)	
Accrued balance at June 30, 2010	\$ 20	\$ 2
Accrued balance at March 31, 2011	\$ 4	\$ 1
Activity for the period ended June 30, 2011		
Change in estimate	(1)	
Payments	(1)	
Accrued balance at June 30, 2011	\$ 2	\$ 1
Fiscal 2007 Plan		
Accrued balance at March 31, 2010	\$ 8	\$ 60
Payments	(2)	(4)
Accrued balance at June 30, 2010	\$ 6	\$ 56
Accrued balance at March 31, 2011	4	46
Change in estimate		1
Payments	(1)	(4)
Accretion and other		1
Accrued balance at June 30, 2011	\$ 3	\$ 44

The severance liability is included in the "Accrued salaries, wages and commissions" line item on the Condensed Consolidated Balance Sheet. The facilities abandonment liability is included in the "Accrued expenses and other current liabilities" and "Other noncurrent liabilities" line items on the Condensed Consolidated Balance Sheet. The costs are included in the "Restructuring and other" line item on the Condensed Consolidated Statements of Operations. Accretion and other includes accretion of the Company's lease obligations related to facilities abandonment as well as changes in the assumptions related to future sublease income. These costs are included in the "General and administrative" expense line item on the Condensed Consolidated Statements of Operations.

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(unaudited)

NOTE E MARKETABLE SECURITIES

At June 30, 2011, available-for-sale securities consisted of the following:

	June 30, 2011 (in millions)			
	Aggregate Cost	Gross Unrealized	Gross Unrealized	Aggregate Fair Value
	Basis	Gains	Losses	
U.S. treasury and agency securities	\$ 68	\$	\$	\$ 68
Municipal securities	1			1
Corporate debt securities	120			120
	\$ 189	\$	\$	\$ 189

At June 30, 2011, the Company did not have any debt securities that were in a continuous unrealized loss position for greater than 12 months. Proceeds from the sale of marketable securities and realized gains and realized losses were approximately \$18 million and less than \$1 million, respectively. At June 30, 2011, \$84 million of marketable securities had scheduled maturities of less than one year, and approximately \$105 million had maturities of greater than one year but not exceeding three years.

At March 31, 2011, available-for-sale securities consisted of the following:

	March 31, 2011 (in millions)			
	Aggregate Cost	Gross Unrealized	Gross Unrealized	Aggregate Fair Value
	Basis	Gains	Losses	
U.S. treasury and agency securities	\$ 60	\$	\$	\$ 60
Municipal securities	2			2
Corporate debt securities	117			117
	\$ 179	\$	\$	\$ 179

At March 31, 2011, the Company did not have any debt securities that were in a continuous unrealized loss position for greater than 12 months. At March 31, 2011, \$75 million of marketable securities had scheduled maturities of less than one year, and approximately \$104 million had scheduled maturities of greater than one year but not exceeding three years.

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

(unaudited)

NOTE F TRADE AND INSTALLMENT ACCOUNTS RECEIVABLE

Trade and installment accounts receivable, net represents amounts due from the Company's customers and is presented net of allowance for doubtful accounts. These balances include revenue recognized in advance of customer billings but do not include unbilled contractual commitments executed under license agreements. The components of Trade and installment accounts receivable, net were as follows:

	June 30, 2011	March 31, 2011
	<i>(in millions)</i>	
Accounts receivable billed	\$ 535	\$ 758
Accounts receivable unbilled	64	86
Other receivables	19	27
Less: Allowance for doubtful accounts	(21)	(22)
 Trade and installment accounts receivable, net	 \$ 597	 \$ 849

NOTE G GOODWILL, CAPITALIZED SOFTWARE AND OTHER INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization for capitalized software and other intangible assets at June 30, 2011 were approximately \$7,471 million and \$6,196 million, respectively. These amounts include fully amortized intangible assets of approximately \$5,592 million, which was composed of purchased software of approximately \$4,662 million, internally developed software of approximately \$527 million and other identified intangible assets subject to amortization of approximately \$403 million. The gross carrying amounts and accumulated amortization for identified intangible assets that were not fully amortized were as follows:

	At June 30, 2011		
	Gross Amortizable Assets	Accumulated Amortization	Net Assets
	<i>(in millions)</i>		
Purchased software products	\$ 770	\$ 221	\$ 549
Capitalized development cost and other intangibles:			
Internally developed software products	715	207	508
Other identified intangible assets subject to amortization	394	176	218
 Total capitalized software and other intangible assets	 \$ 1,879	 \$ 604	 \$ 1,275

The gross carrying amounts and accumulated amortization for capitalized software and other intangible assets at March 31, 2011 were approximately \$7,417 million and \$6,133 million, respectively. These amounts included fully amortized assets of approximately \$5,290 million, which was composed of purchased software of approximately \$4,662 million, internally developed software products of approximately \$508 million and other intangible assets subject to amortization of approximately \$120 million. The gross carrying amounts and accumulated amortization for identified intangible assets that were not fully amortized were as follows:

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(unaudited)

	At March 31, 2011		
	Gross Amortizable Assets	Accumulated Amortization <i>(in millions)</i>	Net Assets
Purchased software products	\$ 768	\$ 198	\$ 570
Capitalized development cost and other intangibles:			
Internally developed software products	693	205	488
Other intangible assets subject to amortization	652	440	212
Other intangible assets not subject to amortization	14		14
Total capitalized software costs and other intangible assets	\$ 2,127	\$ 843	\$ 1,284

Based on the capitalized software and other intangible assets recorded through June 30, 2011, the annual amortization expense over the next five fiscal years is expected to be as follows:

	Year Ended March 31,				
	2012	2013	2014	2015	2016
	<i>(in millions)</i>				
Capitalized software:					
Purchased	\$ 85	\$ 78	\$ 70	\$ 59	\$ 57
Internally developed	117	130	112	87	56
Other identified intangible assets subject to amortization	63	51	45	38	24
Total	\$ 265	\$ 259	\$ 227	\$ 184	\$ 137

Goodwill activity for the first quarter of fiscal year 2012 was as follows:

	Amounts <i>(in millions)</i>
Balance at March 31, 2011	\$ 5,688
Revisions to purchase price allocation of prior year acquisitions	(3)
Balance at March 31, 2011 as revised	5,685
Amounts allocated to loss on discontinued operations	(7)
Acquisitions	16
Foreign currency translation adjustment	1
Balance at June 30, 2011	\$ 5,695

NOTE H DEFERRED REVENUE

The components of Deferred revenue (billed or collected) current and Deferred revenue (billed or collected) noncurrent at June 30, 2011 and March 31, 2011 were as follows:

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(unaudited)

	June 30, 2011	March 31, 2011
	<i>(in millions)</i>	
Current:		
Subscription and maintenance	\$ 2,319	\$ 2,444
Professional services	145	145
Financing obligations and other	11	11
Total deferred revenue (billed or collected) current	2,475	2,600
Noncurrent:		
Subscription and maintenance	878	940
Professional services	28	27
Financing obligations and other	3	2
Total deferred revenue (billed or collected) noncurrent	909	969
Total deferred revenue (billed or collected)	\$ 3,384	\$ 3,569

NOTE I DERIVATIVES

The Company is exposed to financial market risks arising from changes in interest rates and foreign exchange rates. Changes in interest rates could affect the Company's monetary assets and liabilities, and foreign exchange rate changes could affect the Company's foreign currency denominated monetary assets and liabilities and forecasted transactions. The Company enters into derivative contracts with the intent of mitigating a portion of these risks.

Interest rate swaps: The Company has interest rate swaps with a total notional value of \$500 million, \$200 million of which were entered into during the first quarter of fiscal year 2011, that swap a total of \$500 million of its 6.125% Senior Notes due December 2014 into floating interest rate debt through December 1, 2014. These swaps are designated as fair value hedges.

At June 30, 2011, the fair value of these derivatives was an asset of approximately \$23 million, of which approximately \$11 million is included in Other current assets and approximately \$12 million is included in Other noncurrent assets, net in the Company's Condensed Consolidated Balance Sheets.

At March 31, 2011, the fair value of these derivatives was an asset of approximately \$15 million, of which approximately \$11 million is included in Other current assets and approximately \$4 million is included in Other noncurrent assets, net in the Company's Condensed Consolidated Balance Sheets.

During fiscal year 2009, the Company entered into interest rate swaps with a total notional value of \$250 million to hedge a portion of its variable interest rate payments on its revolving credit facility. These derivatives were designated as cash flow hedges and matured in October 2010. The amount of loss reclassified from Accumulated other comprehensive income into Interest expense, net in the Company's Condensed Consolidated Statements of Operations was approximately \$2 million for the three months ended June 30, 2010.

Foreign currency contracts: The Company enters into foreign currency option and forward contracts to manage foreign currency risks. The Company has not designated its foreign exchange derivatives as hedges. Accordingly,

changes in fair value from these contracts are recorded as Other expenses (gains), net in the Company's Condensed Consolidated Statements of Operations. At June 30, 2011, foreign currency contracts outstanding consisted of purchase and sales contracts with a total notional value of approximately \$635 million and durations of less than nine months. The net fair value of these contracts at June 30, 2011 was approximately \$2 million, of which approximately \$10 million is included in Other current assets and approximately \$8 million is included in Accrued expenses and other current liabilities in the Company's Condensed Consolidated Balance Sheet. The net fair value of these contracts at March 31, 2011 was approximately \$6 million, of which approximately \$7 million is included in Other current assets and approximately \$1 million is included in Accrued expenses and other current liabilities in the Company's Condensed Consolidated Balance Sheet.

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(unaudited)

A summary of the effect of the interest rate and foreign exchange derivatives on the Company's Condensed Consolidated Statements of Operations is as follows:

	Amount of Net (Gain)/Loss Recognized in the Condensed Consolidated Statements of Operations <i>(in millions)</i>	
Location of Amounts Recognized	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
Interest expense, net interest rate swaps designated as cash flow hedges	\$	\$ 2
Interest expense, net interest rate swaps designated as fair value hedges	\$ (3)	\$ (3)
Other expenses (gains), net foreign currency contracts	\$ 7	\$ (13)

The Company is subject to collateral security arrangements with most of its major counterparties. These arrangements require the Company to hold or post collateral when the derivative fair values exceed contractually established thresholds. The aggregate fair values of all derivative instruments under these collateralized arrangements were in a net asset position at June 30, 2011 and March 31, 2011. The Company posted no collateral at June 30, 2011 or March 31, 2011. Under these agreements, if the Company's credit ratings had been downgraded one rating level, the Company would still not have been required to post collateral.

NOTE J FAIR VALUE MEASUREMENTS

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at June 30 and March 31, 2011.

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(unaudited)

<i>(in millions)</i>	At June 30, 2011			At March 31, 2011		
	Fair Value		Estimated	Fair Value		Estimated
	Measurement Using			Measurement Using		
	Input Types		Fair	Input Types		Fair
Level	Level	Level		Level		
	1	2	Total	1	2	Total
Assets:						
Money market funds	\$ 1,778	\$	\$ 1,778 ⁽¹⁾	\$ 2,009	\$	\$ 2,009 ⁽²⁾
Marketable securities ⁽³⁾		189	189		179	179
Foreign exchange derivatives ⁽⁴⁾		10	10		7	7
Interest rate derivatives ⁽⁴⁾		23	23		15	15
Total Assets	\$ 1,778	\$ 222	\$ 2,000	\$ 2,009	\$ 201	\$ 2,210
Liabilities:						
Foreign exchange derivatives ⁽⁴⁾	\$	\$ 8	\$ 8	\$	\$ 1	\$ 1
Total Liabilities	\$	\$ 8	\$ 8	\$	\$ 1	\$ 1

(1) At June 30, 2011, the Company had approximately \$1,728 million and \$50 million of investments in money market funds classified as Cash and cash equivalents and Other noncurrent assets, net for restricted cash amounts, respectively, on its Condensed Consolidated Balance Sheet.

(2) At March 31, 2011, the Company had approximately \$1,959 million and \$50 million of investments in money market funds classified as Cash and cash equivalents and Other noncurrent assets, net for restricted cash amounts, respectively, on its Condensed Consolidated Balance Sheet.

(3) See Note E, Marketable Securities for additional information.

(4) See Note I, Derivatives for additional information.

At June 30 and March 31, 2011, the Company did not have any assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments that are not measured at fair value on a recurring basis at June 30, 2011 and March 31, 2011:

At June 30, 2011		At March 31, 2011	
<i>(in millions)</i>		<i>(in millions)</i>	
Carrying	Estimated	Carrying	Estimated
Value	Fair Value	Value	Fair Value

Liabilities:

Total debt ⁽¹⁾	\$ 1,307	\$ 1,402	\$ 1,551	\$ 1,619
Facilities abandonment reserve ⁽²⁾	\$ 48	\$ 55	\$ 52	\$ 59

- (1) Estimated fair value of total debt was based on quoted prices for similar liabilities for which significant inputs are observable except for certain long-term lease obligations, for which fair value approximates carrying value.
- (2) Estimated fair value for the facilities abandonment reserve was determined using the Company's current incremental borrowing rate. At June 30, 2011 and March 31, 2011, the facilities abandonment reserve included approximately \$14 million and \$15 million, respectively, in Accrued expenses and other current liabilities and approximately \$34 million and \$37 million, respectively, in Other noncurrent liabilities on the Company's Condensed Consolidated Balance Sheet.

The carrying values of financial instruments classified as current assets and current liabilities, such as cash and cash equivalents, accounts payable, accrued expenses, and short-term debt, approximate fair value due to the short-term maturity of the instruments. The fair values of total debt, including current maturities, have been based on quoted market prices.

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(unaudited)

NOTE K COMMITMENTS AND CONTINGENCIES

In September 2010, a lawsuit captioned *Uniloc USA, Inc. et ano. v. National Instruments Corp., et al.* was filed in the United States District Court for the Eastern District of Texas against the Company and 10 other defendants. The complaint alleges, among other things, that Company technology, including Internet Security Suite Plus 2010 (ISS), infringes a patent licensed to plaintiff Uniloc USA, Inc., entitled System for Software Registration, U.S. Patent No. 5,490,216 (216 Patent). The complaint seeks monetary damages and interest in an undisclosed amount, a temporary, preliminary and permanent injunction against alleged acts of infringement, and attorneys fees and costs, based upon the plaintiffs patent infringement claims. In November 2010, the Company filed an answer that, among other things, disputes the plaintiffs claims and seeks a declaratory judgment that the Company does not infringe the 216 Patent and that the 216 Patent is invalid. In June 2011, as part of the plaintiffs preliminary infringement contentions concerning ISS, the plaintiffs produced to the Company a list of almost 1,100 Company products that the plaintiffs claim also infringe on the 216 Patent. The Company has moved to strike this supplemental list because, among other things, the plaintiffs apparent position is inconsistent with prior rulings by the Federal Circuit Court concerning the 216 Patent; and the plaintiffs failed to demonstrate any good faith basis to support their claim because, among other things, at least some of the products on the product list do not employ any license activation technology (the technology subject to the 216 Patent). The Company s motion is pending. Although the timing and ultimate outcome cannot be determined, the Company believes that the plaintiffs claims are unfounded and that the Company has meritorious defenses.

Based on the Company s experience, the Company believes that the damages amounts claimed in the aforementioned case are not a meaningful indicator of the potential liability. Claims, suits, investigations and proceedings are inherently uncertain and it is not possible to predict the ultimate outcome of the aforementioned case. Due to the nature and early stage of the *Uniloc* matter, the Company is unable to estimate a range of reasonably possible loss for this case.

The Company, various subsidiaries, and certain current and former officers have been named as defendants in various other lawsuits and claims arising in the normal course of business. The Company believes that it has meritorious defenses in connection with these other lawsuits and claims, and intends to vigorously contest each of them.

In the opinion of the Company s management based upon information currently available to the Company, while the outcome of the *Uniloc* case and these other lawsuits and claims is uncertain, the likely results of the *Uniloc* case and these other lawsuits and claims against the Company, either individually or in the aggregate, are not expected to have a material adverse effect on the Company s financial position, results of operations, or cash flows, although the effect could be material to the Company s results of operations or cash flows for any interim reporting period.

The Company is obligated to indemnify its officers and directors under certain circumstances to the fullest extent permitted by Delaware law. As a part of that obligation, the Company has advanced and will continue to advance certain attorneys fees and expenses incurred by current and former officers and directors in various lawsuits and investigations.

NOTE L STOCKHOLDERS EQUITY

Stock Repurchases: On May 12, 2011, the Company s Board of Directors approved a stock repurchase program that authorized the Company to acquire up to an additional \$500 million of its common stock. At June 30, 2011, the Company remained authorized to purchase up to approximately \$632 million of additional shares of common stock under its stock repurchase programs. During the three months ended June 30, 2011, the Company repurchased approximately 6.4 million shares of its common stock for approximately \$150 million, all of which was settled through cash payment as of June 30, 2011.

Comprehensive Income: Comprehensive income includes net income, unrealized gains on cash flow hedges, unrealized gains and losses on marketable securities and foreign currency translation adjustments. The components of comprehensive income for the three months ended June 30, 2011 and 2010 are as follows:

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(unaudited)

	Three Months Ended June 30, 2011 2010 <i>(in millions)</i>	
Net income	\$ 241	\$ 217
Net unrealized gain on cash flow hedges, net of tax		1
Unrealized gain/(loss) on marketable securities, net of tax		
Foreign currency translation adjustments	17	(34)
Total comprehensive income	\$ 258	\$ 184

Cash Dividends: The Company's Board of Directors declared the following dividends during the three months ended June 30, 2011 and 2010:

Three Months Ended June 30, 2011:

(in millions, except per share amounts)

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
May 12, 2011	\$0.05	May 23, 2011	\$25	June 16, 2011

Three Months Ended June 30, 2010:

(in millions, except per share amounts)

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
May 12, 2010	\$0.04	May 31, 2010	\$21	June 16, 2010

NOTE M INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of net income per share under the two-class method. Under the two-class method, net income is reduced by the amount of dividends declared in the period for each class of common stock and participating securities. The remaining undistributed income is then allocated to common stock and participating securities as if all of the net income for the period had been distributed. Basic net income per common share excludes dilution and is calculated by dividing net income allocable to common shares by the weighted average number of common shares outstanding for the period. Diluted net income per common share is calculated by dividing net income allocable to common shares by the weighted average number of common shares as of the balance sheet date, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles net income per common share for the three months ended June 30, 2011 and 2010.

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(unaudited)

	Three Months Ended June 30,	
	2011	2010
	<i>(in millions, except per share amounts)</i>	
Basic income from continuing operations per common share:		
Income from continuing operations	\$ 228	\$ 221
Less: Income from continuing operations allocable to participating securities	(3)	(3)
Income from continuing operations allocable to common shares	\$ 225	\$ 218
Weighted average common shares outstanding	500	510
Basic income from continuing operations per common share	\$ 0.45	\$ 0.43
Diluted income from continuing operations per common share:		
Income from continuing operations	\$ 228	\$ 221
Less: Income from continuing operations allocable to participating securities	(3)	(3)
Income from continuing operations allocable to common shares	\$ 225	\$ 218
Weighted average shares outstanding and common share equivalents		
Weighted average common shares outstanding	500	510
Weighted average effect of share-based payment awards	1	1
Denominator in calculation of diluted income per share	501	511

Diluted income from continuing operations per common share \$ 0.45 \$ 0.43

For the three months ended June 30, 2011 and 2010, respectively, approximately 5 million and 10 million shares of Company common stock underlying restricted stock awards and options to purchase common stock were excluded from the calculation because their effect on income per share was anti-dilutive during the respective periods.

Weighted average restricted stock awards of approximately 7 million and 7 million for the three months ended June 30, 2011 and 2010, respectively, were considered participating securities in the calculation of net income available to common shareholders.

NOTE N ACCOUNTING FOR SHARE-BASED COMPENSATION

The Company recognized share-based compensation in the following line items on the Condensed Consolidated Statements of Operations for the periods indicated:

Three Months
Ended June 30,
2011 2010

	<i>(in millions)</i>	
Costs of licensing and maintenance	\$ 1	\$ 1
Cost of professional services	1	1
Selling and marketing	10	7
General and administrative	8	4
Product development and enhancements	5	6
Share-based compensation expense before tax	25	19
Income tax benefit	(8)	(6)
Net share-based compensation expense	\$ 17	\$ 13

The following table summarizes information about unrecognized share-based compensation costs as of June 30, 2011:

17

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(unaudited)

	Unrecognized Compensation Costs (in millions)	Weighted Average Period Expected to be Recognized (in years)
Stock option awards	\$ 7	2.5
Restricted stock units	20	2.4
Restricted stock awards	91	2.2
Performance share units	44	3.0
Total unrecognized share-based compensation costs	\$ 162	2.5

There were no capitalized share-based compensation costs at June 30, 2011 or 2010.

The value of performance share unit (PSU) awards is determined using the closing price of the Company's common stock on the last trading day of the quarter until the PSUs are granted. Compensation costs for the PSUs are amortized over the requisite service periods based on the expected level of achievement of the performance targets. At the conclusion of the performance periods for the PSUs, the applicable number of shares of restricted stock awards (RSAs), restricted stock units (RSUs) or unrestricted shares granted may vary based upon the level of achievement of the performance targets and the approval of the Company's Compensation and Human Resources Committee (which may reduce any award for any reason in its discretion).

For the three months ended June 30, 2011 and 2010, the Company issued options for approximately 0.6 million shares and 1.0 million shares, respectively. The weighted average fair values and assumptions used for the options granted were as follows:

	Three Months Ended June 30,	
	2011	2010
Weighted average fair value	\$ 6.00	\$ 5.62
Dividend yield	0.91%	0.82%
Expected volatility factor ⁽¹⁾	33%	34%
Risk-free interest rate ⁽²⁾	1.7%	1.9%
Expected life (in years) ⁽³⁾	4.5	4.5

(1) Expected volatility is measured using historical daily price changes of the Company's stock over the respective expected term of the options and the implied volatility derived from the market prices of the Company's traded options.

(2) The risk-free rate for periods within the contractual term of the stock options is based on the U.S. Treasury yield curve in effect at the time of grant.

(3) The Company's computation of expected life was determined based on the simplified method (the average of the vesting period and option term), due to changes in the vesting terms, the contractual lives and the population of

employees granted options compared with the Company's historical grants. The 1-year PSU awards for the fiscal year 2011 and 2010 incentive plan years under the Company's long-term incentive plans were granted in the first quarter of fiscal years 2012 and 2011, respectively. The table below summarizes the RSAs and RSUs granted under these PSUs:

Table of Contents

CA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(unaudited)

Incentive Plans for Fiscal Years	Performance Period	RSAs		RSUs	
		Shares (<i>in millions</i>)	Weighted Average Grant Date Fair Value	Shares (<i>in millions</i>)	Weighted Average Grant Date Fair Value
2011	1-year	1.1	&nbs		