CA, INC.
Form 10-Q
February 05, 2008

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

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended December 31, 2007

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period ended from __________ to __________

Commission File Number 1-9247

CA, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-2857434**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
One CA Plaza Islandia, New York	**11749**
(Address of principal executive offices)	(Zip Code)

(631) 342-6000

(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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	as of January 28, 2008
par value $0.10 per share	513,391,903

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

The Board of Directors and Stockholders
CA, Inc.:

We have reviewed the accompanying consolidated condensed balance sheet of CA, Inc. and subsidiaries as of December 31, 2007, the related consolidated condensed statements of operations for the three-month and nine-month periods ended December 31, 2007 and 2006, and the consolidated condensed statements of cash flows for the nine-month periods ended December 31, 2007 and 2006. These consolidated condensed financial statements are the responsibility of the Company s management.

We conducted our review in accordance with standards established by 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 consolidated condensed 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 standards established by the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of CA, Inc. and subsidiaries as of March 31, 2007, 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 30, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated condensed balance sheet as of March 31, 2007, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note A, Basis of Presentation to the consolidated condensed financial statements, effective April 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements.

/s/ **KPMG LLP**
New York, New York
February 5, 2008

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Item 1.

CA, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(unaudited)
(in millions, except share and per share amounts)

	December 31, 2007	March 31, 2007
ASSETS		
CURRENT ASSETS		
Cash, cash equivalents and marketable securities	$ 2,078	$ 2,280
Trade and installment accounts receivable, net	332	355
Deferred income taxes current	360	346
Other current assets	97	71
TOTAL CURRENT ASSETS	2,867	3,052
Installment accounts receivable, due after one year, net	231	331
Property and equipment, net of accumulated depreciation of $988 and $922, respectively	478	469
Purchased software products, net	166	203
Goodwill	5,355	5,345
Federal and state income taxes receivable noncurrent		39
Deferred income taxes noncurrent	311	310
Other noncurrent assets, net	736	769
TOTAL ASSETS	$ 10,144	$ 10,518
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt and loans payable	$ 359	$ 11
Accounts payable	141	227
Accrued salaries, wages and commissions	302	359
Accrued expenses and other current liabilities	533	559
Deferred subscription revenue (collected) current	1,580	1,753
Financing obligations (collected) current	50	63
Deferred maintenance revenue	123	154
Taxes payable, other than income taxes payable current	93	93
Federal, state and foreign income taxes payable current	158	303
Deferred income taxes current	82	81
TOTAL CURRENT LIABILITIES	3,421	3,603
Long-term debt, net of current portion	2,216	2,572
Deferred income taxes noncurrent	17	20
Deferred subscription revenue (collected) noncurrent	499	495
Financing obligations (collected) noncurrent	13	39
Federal, state and foreign income taxes payable noncurrent	180	
Other noncurrent liabilities	114	99

TOTAL LIABILITIES	6,460	6,828
STOCKHOLDERS EQUITY		
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; 509,616,273 and 525,176,744 shares outstanding, respectively	59	59
Additional paid-in capital	3,558	3,547
Retained earnings	2,159	1,780
Accumulated other comprehensive loss	(100)	(96)
Treasury stock, at cost, 80,078,808 shares and 64,518,337 shares, respectively	(1,992)	(1,600)
TOTAL STOCKHOLDERS EQUITY	3,684	3,690
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 10,144	$ 10,518

See Accompanying Notes to the Consolidated Condensed Financial Statements.

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CA, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(unaudited)
(in millions, except per share amounts)

	For the Three Months Ended December 31, 2007	For the Three Months Ended December 31, 2006	For the Nine Months Ended December 31, 2007	For the Nine Months Ended December 31, 2006
REVENUE				
Subscription revenue	$ 894	$ 773	$ 2,581	$ 2,274
Professional services	92	93	280	258
Maintenance	74	100	230	306
Software fees and other	40	36	101	100
TOTAL REVENUE	1,100	1,002	3,192	2,938
EXPENSES				
Cost of professional services	87	81	265	228
Costs of licensing and maintenance	63	60	195	177
Amortization of capitalized software costs	29	83	87	271
Selling, general and administrative	464	479	1,386	1,425
Product development and enhancements	133	132	383	406
Depreciation and amortization of other intangible assets	40	36	117	107
Other expenses (gains), net	13	4	8	(13)
Restructuring and other	22	32	47	101
Charge for in-process research and development costs				10
TOTAL EXPENSES BEFORE INTEREST AND TAXES	851	907	2,488	2,712
Income from continuing operations before interest and income taxes	249	95	704	226
Interest expense, net	10	25	37	45
Income from continuing operations before income taxes	239	70	667	181
Income taxes	76	18	238	40
INCOME FROM CONTINUING OPERATIONS	163	52	429	141
Loss from discontinued operations, inclusive of realized loss on sale, net of income taxes		(2)		(3)
NET INCOME	$ 163	$ 50	$ 429	$ 138

BASIC INCOME PER SHARE				
Income from continuing operations	$ 0.32	$ 0.10	$ 0.83	$ 0.26
Loss from discontinued operations				(0.01)
Net income	$ 0.32	$ 0.10	$ 0.83	$ 0.25
Basic weighted average shares used in computation	510	524	515	551
DILUTED INCOME PER SHARE				
Income from continuing operations	$ 0.31	$ 0.10	$ 0.80	$ 0.25
Loss from discontinued operations		(0.01)		
Net income	$ 0.31	$ 0.09	$ 0.80	$ 0.25
Diluted weighted average shares used in computation	536	549	541	575

See Accompanying Notes to the Consolidated Condensed Financial Statements.

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CA, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)
(in millions)

	For the Nine Months Ended December 31, 2007	2006
OPERATING ACTIVITIES:		
Net income	$ 429	$ 138
Loss from discontinued operations, net of income taxes		3
Income from continuing operations	429	141
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	204	378
Provision for (decrease in) deferred income taxes	46	(335)
Provision for bad debts	22	2
Non-cash stock based compensation expense and defined contribution plan	96	84
Non-cash charge for purchased in-process research and development		10
Loss (gain) on sale of assets	4	(14)
Foreign currency transaction (gains) losses	(19)	1
Changes in other operating assets and liabilities, net of effect of acquisitions:		
Decrease (increase) in trade and current installment accounts receivable, net	60	(32)
Decrease in noncurrent installment accounts receivable, net	68	75
(Decrease) increase in deferred subscription revenue (collected) current	(233)	180
Decrease in deferred subscription revenue (collected) noncurrent	(9)	(23)
(Decrease) increase in financing obligations (collected) current	(14)	46
(Decrease) increase in financing obligations (collected) noncurrent	(26)	24
Decrease in deferred maintenance revenue	(36)	(43)
Increase in taxes payable, net	7	165
Decrease in accounts payable, accrued expenses and other	(91)	(107)
Restructuring and other, net	(37)	20
Changes in other operating assets and liabilities	(58)	(25)
NET CASH PROVIDED BY CONTINUING OPERATING ACTIVITIES	413	547
INVESTING ACTIVITIES:		
Acquisitions, primarily goodwill, purchased software, and other intangible assets, net of cash acquired	(27)	(173)
Settlements of purchase accounting liabilities	(7)	(18)
Purchases of property and equipment	(81)	(118)
Proceeds from sale of assets	35	218
(Purchases) sales of marketable securities, net	(3)	44
Increase in restricted cash		(1)
Capitalized software development costs	(79)	(58)
NET CASH USED IN INVESTING ACTIVITIES	(162)	(106)
FINANCING ACTIVITIES:		
Dividends paid	(63)	(67)

Purchases of treasury stock (common stock)	(500)	(1,214)
Debt repayments	(758)	
Debt borrowings, net of debt issuance costs of $3 million and $1 million, respectively	747	748
Exercise of common stock options and other	19	24
NET CASH USED IN FINANCING ACTIVITIES	(555)	(509)
DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES ON CASH	(304)	(68)
Effect of exchange rate changes on cash	106	70
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(198)	2
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,275	1,831
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,077	$ 1,833

See Accompanying Notes to the Consolidated Condensed Financial Statements.

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CA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(unaudited)

NOTE A BASIS OF PRESENTATION

The accompanying unaudited Consolidated Condensed Financial Statements of CA, Inc. (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) 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. 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 and nine-month periods ended December 31, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2008. 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, 2007.

Basis of Revenue Recognition:

The Company generates revenue from the following primary sources: (1) licensing software products; (2) providing customer technical support (referred to as maintenance); and (3) providing professional services, such as consulting and education. Revenue is recorded net of applicable sales taxes.

The Company recognizes revenue pursuant to the requirements of Statement of Position 97-2, "*Software Revenue Recognition*, (SOP 97-2), issued by the American Institute of Certified Public Accountants, as amended by SOP 98-9 *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions.* In accordance with SOP 97-2, the Company begins to recognize revenue from licensing and supporting its software products when all of the following criteria are met: (1) the Company has evidence of an arrangement with a customer; (2) the Company delivers the products; (3) license agreement terms are fixed or determinable and free of contingencies or uncertainties that may alter the agreement such that it may not be complete and final; and (4) collection is probable.

Under the Company s subscription model, implemented in October 2000, software license agreements typically combine the right to use specified software products, the right to maintenance, and the right to receive unspecified future software products for no additional fee during the term of the agreement. Under these subscription licenses, once all four of the above noted revenue recognition criteria are met, the Company is required under GAAP to recognize revenue ratably over the term of the license agreement.

For license agreements signed prior to October 2000, once all four of the above noted revenue recognition criteria were met, software license fees were recognized as revenue generally when the software was delivered to the customer, or up-front (as the contracts did not include a right to unspecified software products), and the maintenance fees were deferred and subsequently recognized as revenue over the term of the license. Under the Company s current business model, a relatively small amount of the Company s revenue from software licenses is recognized on an up-front or perpetual basis, subject to meeting the same revenue recognition criteria in accordance with SOP 97-2 as described above. Software fees from such licenses are recognized up-front and are reported in the Software fees and other line in the Consolidated Condensed Statements of Operations. Maintenance fees from such licenses are recognized ratably over the term of the license and are recorded on the Maintenance line in the Consolidated Condensed Statements of Operations. License agreements whose software fees are recognized up-front do not include the right to receive unspecified future software products. However, in the event such license agreements are executed within close proximity or in contemplation of other license agreements that are signed under the Company s subscription model with the same customer, the licenses together may be deemed a single multi-element agreement, and all such revenue is required to be recognized ratably and is recorded as Subscription revenue in the Consolidated

Condensed Statements of Operations.

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Since the Company implemented its subscription model in October 2000, the Company s practice with respect to newly acquired products with established Vendor Specific Objective Evidence (VSOE) of fair value has been to record revenue initially on the acquired company s systems, generally under a perpetual or up-front model; and, starting within the first fiscal year after the acquisition, to enter new licenses for such products under its subscription model, following which revenue is recognized ratably and recorded as Subscription revenue. In some instances, the Company sells newly developed and recently acquired products on a perpetual or up-front model. The software license fees from these contracts are presented as Software fees and other . Selling such licenses under an up-front model may result in higher total revenue in a reporting period than if such licenses were based on the Company s subscription model and the associated revenue recognized ratably.

Maintenance revenue is derived from two primary sources: (1) the maintenance portion of combined license and maintenance agreements recorded under the prior business model or newly developed and recently acquired products sold on a perpetual or up-front model; and (2) stand-alone maintenance agreements. Maintenance revenue from these types of agreements is recognized on the Maintenance line item in the Consolidated Condensed Statements of Operations over the term of the agreement.

Under the Company s prior business model, maintenance and license fees were generally combined into a single license agreement. The maintenance portion was deferred and amortized into revenue over the initial license agreement term. Some of these license agreements have not reached the end of their initial terms and, therefore, continue to amortize. This amortization is recorded on the Maintenance line item in the Consolidated Condensed Statements of Operations. The deferred maintenance portion was determined using its fair value based on annual, fixed maintenance renewal rates stated in the agreement. For license agreements entered into under the Company s subscription model, maintenance and license fees continue to be combined; however, the maintenance is inclusive for the entire term. The Company reports such combined fees on the Subscription revenue line item in the Consolidated Condensed Statements of Operations.

The Deferred maintenance revenue line item on the Company s Consolidated Condensed Balance Sheets principally represents payments received in advance of maintenance services to be rendered.

Revenue from professional service arrangements is generally recognized as the services are performed. Revenue from committed professional services that are sold as part of a subscription license agreement is deferred and recognized on a ratable basis over the term of the related software license. If it is not probable that a project will be completed or the payment will be received, revenue recognition is deferred until the uncertainty is removed.

Revenue from sales to distributors, resellers, and value-added resellers (VARs) commences when all four of the SOP 97-2 revenue recognition criteria noted above are met and when these entities sell the software product to their customers. This is commonly referred to as the sell-through method. Revenue from the sale of products to distributors, resellers and VARs that incorporates the right for the end-users to receive certain unspecified future software products is recognized on a ratable basis.

Additionally, in the second quarter of fiscal year 2008, the Company decided that certain channel or commercial products sold through tier two distributors will no longer entitle the customer to receive unspecified future software products. As such, license revenue from these sales where the Company has established VSOE for maintenance is recognized on a perpetual or up-front basis using the residual method and is reflected as Software fees and other , with maintenance revenue being deferred and recognized ratably.

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, 2007.

Cash Dividends:

In November 2007, the Company s Board of Directors declared a quarterly cash dividend of $0.04 per share. The dividend totaled approximately $21 million and was paid on December 28, 2007 to stockholders of

CA, INC. AND SUBSIDIARIES
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record at the close of business on December 14, 2007. In August 2007, the Company s Board of Directors declared a quarterly cash dividend of $0.04 per share. The dividend totaled approximately $21 million and was paid on September 26, 2007 to stockholders of record at the close of business on September 12, 2007. In June 2007, the Company s Board of Directors declared a quarterly cash dividend of $0.04 per share. The dividend totaled approximately $21 million and was paid on June 29, 2007 to stockholders of record at the close of business on June 22, 2007.

In November 2006, the Company s Board of Directors declared a quarterly cash dividend of $0.04 per share. The dividend totaled approximately $21 million and was paid on December 29, 2006 to stockholders of record at the close of business on December 15, 2006. In September 2006, the Company s Board of Directors declared a quarterly cash dividend of $0.04 per share. The dividend totaled approximately $23 million and was paid on September 29, 2006 to stockholders of record at the close of business on September 22, 2006. In June 2006, the Company s Board of Directors declared a quarterly cash dividend of $0.04 per share. The dividend totaled approximately $23 million and was paid on June 30, 2006 to stockholders of record at the close of business on June 19, 2006.

Cash, Cash Equivalents and Marketable Securities:

The Company s cash, cash equivalents and marketable securities balances are held in numerous locations throughout the world, with approximately 61% residing outside the United States at December 31, 2007. At December 31, 2007, cash, cash equivalents and marketable securities included approximately $99 million of commercial paper which was purchased with an original maturity of less than 90 days. Marketable securities at December 31, 2007 and March 31, 2007 were approximately $1 million and $5 million, respectively.

Restricted Cash:

The Company s insurance subsidiary requires a minimum restricted cash balance of $50 million. In addition, the Company has other restricted cash balances, including cash collateral for letters of credit. The total amount of restricted cash was approximately $61 million as of December 31, 2007 and March 31, 2007, and is included in the Other noncurrent assets line item in the Consolidated Condensed Balance Sheets.

Statement of Cash Flows:

For the nine-month periods ended December 31, 2007 and 2006, interest payments were $122 million and $102 million, respectively, and income taxes paid were $170 million and $173 million, respectively.

In November 2007, the Company concluded its previously announced $500 million Accelerated Share Repurchase program (ASR) with a third-party financial institution. In June 2007, the Company paid $500 million to repurchase shares of its common stock and received approximately 16.9 million shares at inception. Based on the terms of the agreement between the Company and the third-party financial institution, the Company received approximately 3.0 million additional shares of its common stock at the conclusion of the program in November 2007 at no additional cost. The average price paid under the ASR was $25.13 per share and total shares repurchased was approximately 19.9 million.

The $500 million payment under the ASR is included in the cash flows used in financing activities section in the Company s Consolidated Condensed Statement of Cash Flows for the nine-month period ended December 30, 2007 and is recorded as treasury stock in the Stockholders Equity section of the Consolidated Condensed Balance Sheet.

Non-cash financing activities for the nine-month periods ended December 31, 2007 and 2006 consisted of treasury shares issued in connection with the following: share-based incentive awards issued under the Company s equity compensation plans of approximately $38 million (net of approximately $15 million of withholding taxes) and $28 million (net of approximately $7 million of withholding taxes), respectively; the Company s Employee Stock Purchase Plan of approximately $32 million and $38 million, respectively; and discretionary stock contributions to the CA, Inc. Savings Harvest Plan of approximately $22 million and $0, respectively.

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Derivatives:

Derivatives are accounted for in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). Periodically, as part of the Company s on-going risk management program, the Company enters into derivative contracts with the intent of mitigating a certain portion of the Company s operating exposures, which could include its exposure to foreign currency denominated monetary assets and liabilities and forecasted transactions. During the quarter ended December 31, 2007, the Company did not designate these as hedges under SFAS No. 133. Accordingly, all outstanding derivatives are recognized on the balance sheet at fair value and the changes in fair value from these contracts are recorded as Other expenses (gains), net in the Consolidated Condensed Statement of Operations.

At December 31, 2007, derivatives with a total notional value of approximately $172 million were outstanding. Principal currencies hedged include the Euro, Japanese Yen, Canadian Dollar, British Pound and the Australian Dollar. The derivative contracts that were entered into during the third quarter of fiscal year 2008 resulted in a realized loss of approximately $3 million. Unrealized gains on outstanding derivative contracts as of December 31, 2007 were less than $1 million. These results are included in the Other expenses (gains), net line item in the Consolidated Condensed Statement of Operations. The derivatives outstanding at the end of December 31, 2007 will mature during the fourth quarter of fiscal year 2008. In the fourth quarter of fiscal year 2008, the Company entered into similar derivative contracts as those entered during the third quarter of fiscal year 2008 relating to the Company s operating exposures.

Concentration of Credit Risk:

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of accounts receivable. Amounts included in accounts receivable expected to be collected from customers, as disclosed in Note E, Trade and Installment Accounts Receivable, have limited exposure to concentration of credit risk due to the diverse customer base and geographic areas covered by operations. Unbilled amounts due under the Company s prior business model that are expected to be collected from customers include one large IT outsourcer with a license arrangement that extends through fiscal year 2012 with a net unbilled receivable balance of approximately $324 million.

New Revolving Credit Facility:

In August 2007, the Company entered into a new unsecured revolving credit facility (the 2008 Revolving Credit Facility). The maximum committed amount available under the 2008 Revolving Credit Facility is $1.0 billion, exclusive of incremental credit increases of up to an additional $500 million which are available subject to certain conditions and the agreement of the Company s lenders. The 2008 Revolving Credit Facility replaced a $1.0 billion revolving credit facility (the 2004 Revolving Credit Facility) that was due to expire on December 2, 2008; that credit facility was terminated effective August 29, 2007, at which time outstanding borrowings of $750 million were repaid and simultaneously re-borrowed under the 2008 Revolving Credit Facility. The 2008 Revolving Credit Facility expires August 29, 2012. As of December 31, 2007, $750 million was outstanding under the 2008 Revolving Credit Facility. This amount is included in the Long-term debt, net of current portion line item on the Consolidated Condensed Balance Sheet.

Senior Notes Due 2014:

On December 21, 2007, a Settlement Agreement was entered in connection with the lawsuit captioned *The Bank of New York v. CA, Inc. et al.*, which was filed in the Supreme Court of the State of New York, New York County in which the Company agreed to pay supplemental interest on the 5.625% Senior Notes due 2014 at a rate of 0.50% per annum, bringing the total interest rate on such notes to 6.125% per annum. The Company recorded a charge of approximately $14 million during the third quarter of fiscal year 2008 relating to this Settlement Agreement. The charge, representing the present value of additional

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CA, INC. AND SUBSIDIARIES
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amounts that will be paid on the Notes under the Settlement Agreement, is included in the Other expenses (gains), net line item in the Consolidated Condensed Statement of Operations. The related liability is recorded on the Consolidated Condensed Balance Sheet at December 31, 2007 in Accrued expenses and other current liabilities for approximately $3 million, and in Other noncurrent liabilities for approximately $11 million. As part of the Settlement Agreement, the Company is no longer required to register the Notes. For further information, refer to Note J, Commitments and Contingencies , in this Quarterly Form 10-Q Report.

Adoption of new accounting principle:

On April 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). Among other things, FIN 48 prescribes a more-likely-than-not threshold for the recognition and derecognition of tax positions, provides guidance on the accounting for interest and penalties relating to tax positions and requires that the cumulative effect of applying the provisions of FIN 48 shall be reported as an adjustment to the opening balance of retained earnings or other appropriate components of equity or net assets in the statement of financial position. Refer to Note I, Income Taxes, for additional information relating to the Company s accounting for FIN 48 and income taxes.

Reclassification and revisions:

Statement of Operations: Effective with the filing of this third quarter of fiscal year 2008 10-Q Report, the Company revised its Consolidated Condensed Statement of Operations in order to provide further clarity into its financial results. The Company has modified its financial statements to identify certain costs of sales on the Consolidated Condensed Statement of Operations. The Company continues to report Amortization of capitalized software costs and Costs of professional services as separate line items on the Consolidated Condensed Statement of Operations and has now added a new line item entitled Costs of licensing and maintenance . Costs of licensing and maintenance includes technical support costs (previously reported as part of Product development and enhancements), royalties (previously reported as part of Commissions, royalties and bonuses), and other manufacturing and distribution costs (previously included within Selling, general, and administrative). The remaining amounts previously reported under Commissions, royalties and bonuses have been included with Selling, general and administrative expenses. To maintain consistency and comparability, the Company reclassified prior-year amounts to conform to the current-year Consolidated Condensed Statement of Operations presentation. These expense reclassifications had no effect on previously reported total expenses or total revenue.

CA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
DECEMBER 31, 2007
(unaudited)

The following table summarizes the expense section of the Company s Consolidated Condensed Statements of Operations for the reported prior periods indicated, giving effect to the reclassifications described above.

	For the Three Months Ended December 31, 2006		For the Nine Months Ended December 31, 2006	
	Previously Reported (1)	Revised	Previously Reported (1)	Revised
	(unaudited) (in millions)			
Cost of professional services	$ 81	$ 81	$ 228	$ 228
Cost of licensing and maintenance		60		177
Amortization of capitalized software costs	83	83	271	271
Selling, general and administrative	403	479	1,240	1,425
Product development and enhancements	176	132	533	406
Commissions, royalties and bonuses	92		235	
Depreciation and amortization of other intangible assets	36	36	107	107
Other expenses (gains), net	4	4	(13)	(13)
Restructuring and other	32	32	101	101
Charge for in-process research and development costs			10	10
Total expenses before interest and taxes	$ 907	$ 907	$ 2,712	$ 2,712

(1) As reported in the Company s Quarterly Report on Form 10-Q for the period ended December 31, 2006

Balance Sheet:

Effective with the filing of this third quarter of fiscal year 2008 10-Q Report, the Company reclassified certain amounts related to its estimates of unearned revenue on amounts billed and not collected in connection with subscription license agreements and maintenance agreements, which were reported in Trade and installments accounts receivable, net . For the fiscal year ended March 31, 2007, the Company has reclassified approximately $49 million from Deferred subscription revenue (collected) current and approximately $39 million from Deferred maintenance revenue to Trade and installment accounts receivable, net . For the fiscal year ended March 31, 2006, the Company has reclassified approximately $204 million from Deferred subscription revenue (collected) current and approximately $49 million from Deferred maintenance revenue to Trade and installment accounts receivable, net . These reclassifications were deemed immaterial and had no effect on the Company s previously reported Consolidated Statements of Operations or total Cash Flows from Operations for any prior periods.

During the third quarter of fiscal year 2008, the Company determined that Federal, State and foreign income taxes payable current and Deferred income taxes current were each overstated by approximately $32 million, principally related to errors in preparing the year-end estimated tax provisions for North America. The March 31, 2007 Consolidated Condensed Balance Sheet presented in this Form 10-Q Report has been adjusted to reflect the correction of this error. The impact of this correction is not considered material to the March 31, 2007 financial statements and does not affect the previously reported Consolidated Statements of Operations or total Cash Flows from Operations.

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NOTE B COMPREHENSIVE INCOME

Comprehensive income includes net income, unrealized gains and losses on the Company s available-for-sale securities, and foreign currency translation adjustments. The components of comprehensive income for the three and nine-month periods ended December 31, 2007 and 2006 are as follows:

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2007	2006	2007	2006
	(in millions)			
Net income	$ 163	$ 50	$ 429	$ 138
Net unrealized gains on marketable securities, net of tax	(1)	2	(1)	
Foreign currency translation adjustments	(4)	14	(3)	14
Total comprehensive income	$ 158	$ 66	$ 425	$ 152

NOTE C EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing (i) the sum of net income and the after-tax amount of interest expense recognized in the period associated with outstanding dilutive Convertible Senior Notes by (ii) the sum of the weighted average number of common shares outstanding for the period and the weighted average dilutive common share equivalents.

For the three-month periods ended December 31, 2007 and 2006, approximately 12.9 million and 15.9 million of restricted stock awards and options to purchase common stock, respectively, were excluded from the calculation, as their effect on earnings per share was anti-dilutive during the respective periods. For the nine-month periods ended December 31, 2007 and 2006, approximately 14.2 million and 16.1 million of restricted stock awards and options to purchase common stock, respectively, were excluded from the calculation, as their effect on earnings per share was anti-dilutive during the respective periods.

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2007	2006	2007	2006
	(in millions, except per share amounts)			
Income from continuing operations, net of taxes	$ 163	$ 52	$ 429	$ 141
Interest expense associated with Convertible Senior Notes, net of tax	1	1	3	3
Numerator in calculation of diluted income per share	$ 164	$ 53	$ 432	$ 144
Weighted average shares outstanding and common share equivalents				
Weighted average common shares outstanding	510	524	515	551
Weighted average shares outstanding upon conversion of Convertible Senior Notes	23	23	23	23

Weighted average equity awards outstanding	3	2	3	1
Denominator in calculation of diluted income per share	536	549	541	575
Diluted income from continuing operations per share	$ 0.31	$ 0.10	$ 0.80	$ 0.25

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NOTE D ACCOUNTING FOR SHARE-BASED COMPENSATION

Effective April 1, 2005, the Company adopted, under the modified retrospective basis, the provisions of SFAS No. 123(R) *Share-based payment* (SFAS No. 123(R)), which requires share-based awards exchanged for employee services to be accounted for under the fair value method. Accordingly, share-based compensation cost is measured at the grant date, based on the fair value of the award. The Company uses the straight-line attribution method to recognize share-based compensation costs related to awards with only service conditions. The expense is recognized over the employee s requisite service period (generally the vesting period of the award).

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

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2007	2006	2007	2006
	(in millions)			
Cost of professional services	$ 1	$ 1	$ 3	$ 3
Costs of licensing and maintenance	1	1	2	1
Selling, general, and administrative	20	19	52	49
Product development and enhancements	7	7	21	19
Share-based compensation expense before tax	29	28	78	72
Income tax benefit	9	9	25	21
Net share-based compensation expense	$ 20	$ 19	$ 53	$ 51

There were no capitalized share-based compensation costs at December 31, 2007 or 2006.

The following table summarizes information about unrecognized share-based compensation costs as of December 31, 2007:

	Unrecognized Compensation Costs (in millions)	Weighted Average Period Expected to be Recognized (in years)
Stock option awards	$ 13	1.2
Restricted stock units	10	1.4
Restricted stock awards	57	1.5
Performance share units	34	1.4
Total unrecognized share-based compensation costs	$ 114	1.4

Share-based incentive awards are provided to employees under the terms of the Company s equity compensation plans (the Plans). The Plans are administered by the Compensation and Human Resource Committee of the Board of

Directors (the Committee). Awards under the Plans may include at-the-money stock options, premium-priced stock options, restricted stock awards (RSAs), restricted stock units (RSUs), performance share units (PSUs), or any combination thereof. The non-employee members of the Company s Board of Directors receive deferred stock units under a separate director compensation plan.

On August 22, 2007, the stockholders approved the 2007 Incentive Plan (the 2007 Plan). Additional information about the 2007 Plan is included in the Company s August 27, 2007 Form 8-K filing. Additional information relating to the Company s other Plans which have been approved by stockholders and a description of the awards issued under these Plans can be found in Note 10, Stock Plans in the Company s 2007 Annual Report on Form 10-K.

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Under the Company s long-term incentive program for fiscal years 2008, 2007 and 2006, senior executives were issued PSUs under which they are eligible to receive RSAs or RSUs and unrestricted shares at the end of the performance period if certain performance targets are achieved. Quarterly, PSU values are marked to the closing price of the Company s 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 fiscal year 2008 1-year and 3-year PSUs and the performance period for the fiscal year 2007 and 2006 3-year PSUs, the applicable number of shares of RSAs or RSUs or unrestricted stock granted may vary based upon the level of achievement of the performance targets and the approval of the Committee (which has discretion to reduce any award for any reason). The related compensation cost recognized will be based on the number of shares granted and the closing stock price on the day of grant.

Each quarter, the Company compares the performance it expects to achieve with the performance targets. As of December 31, 2007, the expected levels of achievement of the performance targets for PSUs not yet granted are as follows:

	Current Expected Level of Achievement	
Incentive Plans for Fiscal Years	1 -year PSUs	3 -year PSUs
2008	141%	100%
2007	N/A	100%
2006	N/A	120%

The 1-year PSUs under the fiscal year 2007 and 2006 long term incentive plans were granted in the first quarter of fiscal years 2008 and 2007, respectively. The table below summarizes the RSAs and RSUs granted under these PSUs:

	RSAs		RSUs	
Incentive Plans for Fiscal Years	Shares (millions)	Weighted Average Grant Date Fair Value	Shares (millions)	Weighted Average Grant Date Fair Value
2007	0.9	$ 26.45	(1)	$ 26.38
2006	0.3	$ 21.88		

(1) Shares granted amounted to less than 0.1 million

When the Company grants a stock option award, the fair value of the option is estimated at the grant date using the Black-Scholes option pricing model, consistent with the provisions of SFAS No. 123(R) and the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 107, "*Interaction Between FASB Statement No. 123(R), and Certain SEC Rules and Regulations Regarding the Valuation of Share-Based Payment Arrangements for Public Companies* (SAB 107). The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the Company s stock options. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive stock option awards.

For the three-month period ended December 31, 2007, the Company did not issue options. For the three-month period ended December 31, 2006 the Company issued options covering approximately 0.1 million shares of common stock. For the nine-month periods ended December 31, 2007 and 2006, the Company issued options covering less than 0.1 million and approximately 2.5 million shares of common stock, respectively.

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The weighted average assumptions that were used for option grants in the respective periods are as follows:

	For the Three Months Ended December 31, 2007	For the Three Months Ended December 31, 2006	For the Nine Months Ended December 31, 2007	For the Nine Months Ended December 31, 2006
Weighted average fair value	$	$ 8.63	$ 7.84	$ 8.40
Dividend yield	%	0.67%	0.62%	0.73%
Expected volatility factor(1)		0.37	0.28	0.41
Risk-free interest rate(2)	%	4.8%	5.1%	4.9%
Expected term (in years)(3)		4.5	4.5	4.5

(1) Expected volatility is measured using the 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 market options traded by third parties.

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

(3) The expected term is the

number of years that the Company estimates, based primarily on historical experience, that options will be outstanding prior to exercise, forfeiture or expiration.

The table below summarizes the RSUs and RSAs, including grants provided pursuant to the long term incentive plans, granted during the three and nine-month periods ended December 31, 2007 and 2006:

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2007	2006	2007	2006
	(shares in millions)			
RSUs				
Shares			0.2	0.3
Weighted Avg. Grant Date Fair Value			$25.23	$21.97
RSAs				
Shares	(1)	(1)	2.6	2.9
Weighted Avg. Grant Date Fair Value	$26.01	$23.30	$25.93	$21.98

(1) Shares granted amounted to less than 0.1 million

NOTE E TRADE AND INSTALLMENT ACCOUNTS RECEIVABLE

The Company uses installment license agreements as a standard business practice and has a history of successfully collecting substantially all amounts due under the original payment terms without making concessions on payments, software products, maintenance, or professional services. Net trade and installment accounts receivable represent financial assets derived from the committed amounts due from the Company s customers that have been earned by the Company. These accounts receivable balances are reflected net of unamortized discounts based on imputed interest for the time value of money for license agreements under the Company s prior business model, unearned revenue attributable to maintenance and allowances for doubtful accounts. These balances do not include unbilled contractual commitments executed under the Company s subscription model. Trade and installment accounts receivable are comprised of the following components:

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	December 31, 2007	March 31, 2007
	(in millions)	
Current:		
Accounts receivable	$ 823	$ 779
Other receivables	80	101
Unbilled amounts due within the next 12 months prior business model	106	146
Less: Allowance for doubtful accounts	(45)	(32)
Less: Unearned revenue current	(632)	(639)
Net trade and installment accounts receivable current	$ 332	$ 355
Noncurrent:		
Unbilled amounts due beyond the next 12 months prior business model	$ 249	$ 357
Less: Allowance for doubtful accounts	(1)	(5)
Less: Unearned revenue noncurrent	(17)	(21)
Net installment accounts receivable noncurrent	$ 231	$ 331

The components of unearned revenue consist of the following:

	December 31, 2007	March 31, 2007
	(in millions)	
Current:		
Unamortized discounts	$ 29	$ 32
Unearned maintenance	39	40
Deferred subscription revenue (billed, uncollected)	564	567
Total unearned revenue current	$ 632	$ 639
Noncurrent:		
Unamortized discounts	$ 7	$ 18
Unearned maintenance	10	3
Total unearned revenue noncurrent	$ 17	$ 21

During the first nine months of fiscal year 2008, the Company transferred its rights and interest in future committed installments under certain software license agreements to a third-party financial institution with an aggregate contract value of approximately $17 million, for which cash was received in the amount of approximately $14 million, which reflects a discount based on the present value of the future committed installments. In the first nine months of fiscal year 2007, the Company entered into similar transactions with an aggregate contract value of approximately $109 million, for which cash was received in the amount of approximately $103 million, which reflects a discount based on the present value of the committed installments. If the Company transfers its financial interest in future committed installments under a license agreement to a third-party financing institution, for which revenue has not yet been recognized, the Company records the liability associated with the receipt of the cash as Financing obligations (collected) in the Consolidated Condensed Balance Sheets. The amounts received from third-party financing institutions are classified as either current or noncurrent, depending upon when amounts are expected to be payable by the customer under the license agreement. As the installments become due and payable from the customer to the third-party financing institution, the Company relieves its liability to the financing institution and recognizes the previously financed amount as Deferred subscription revenue (collected) in the Consolidated Condensed Balance Sheet. As of December 31, 2007, the aggregate remaining amounts due to the third-party financing institutions classified as Financing obligations (collected) in the Consolidated Condensed Balance Sheet was approximately $63 million, compared to approximately $102 million as of March 31, 2007. The financing agreements may contain limited recourse provisions with respect to the Company s continued performance under the license agreements. Based on its historical experience, the Company believes that any liability which may be incurred as a result of these limited recourse provisions will be immaterial.

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NOTE F IDENTIFIED INTANGIBLE ASSETS

In the table below, capitalized software includes both purchased and internally developed software costs; other identified intangible assets includes both purchased customer relationships and trademarks/trade name costs. Internally developed capitalized software costs and other identified intangible asset costs are included in Other noncurrent assets, net on the Consolidated Condensed Balance Sheets.

The gross carrying amounts and accumulated amortization for identified intangible assets are as follows:

	As of December 31, 2007		
	Gross Assets	Accumulated Amortization (in millions)	Net Assets
Capitalized software:			
Purchased	$ 4,785	$ 4,619	$ 166
Internally developed	711	450	261
Other identified intangible assets subject to amortization	660	374	286
Other identified intangible assets not subject to amortization	14		14
Total	$ 6,170	$ 5,443	$ 727

	As of March 31, 2007		
	Gross Assets	Accumulated Amortization (in millions)	Net Assets
Capitalized software:			
Purchased	$ 4,803	$ 4,600	$ 203
Internally developed	639	413	226
Other identified intangible assets subject to amortization	657	323	334
Other identified intangible assets not subject to amortization	14		14
Total	$ 6,113	$ 5,336	$ 777

In the third quarter of fiscal years 2008 and 2007, amortization of capitalized software costs was $29 million and $83 million, respectively, and amortization of other identified intangible assets was $16 million and $14 million, respectively.

For the first nine months of fiscal years 2008 and 2007, amortization of capitalized software costs was $87 million and $271 million, respectively, and amortization of other identified intangible assets was $51 million and $41 million, respectively. The decline in amortization of capitalized software costs is attributable to certain intangible assets from prior acquisitions being fully amortized.

Based on the identified intangible assets recorded through December 31, 2007, annual amortization expense is expected to be as follows:

	Year Ended March 31,					
	2008	2009	2010	2011	2012	2013
	(in millions)					

Capitalized software:						
Purchased	$ 60	$ 50	$ 38	$ 27	$ 16	$ 9
Internally developed	57	69	64	53	36	21
Other identified intangible assets subject to amortization	66	53	52	51	31	25
Total	$ 183	$ 172	$ 154	$ 131	$ 83	$ 55

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During the nine-month period ended December 31, 2007, goodwill increased by approximately $10 million, primarily due to the acquisitions of small software companies. Refer to Note G, Acquisitions, for additional information relating to the Company s acquisitions.

NOTE G ACQUISITIONS

Acquisitions are accounted for as purchases and, accordingly, their results of operations have been included in the Consolidated Condensed Financial Statements since the dates of their acquisitions. The purchase price for the Company s acquisitions is allocated to the assets acquired and liabilities assumed from the acquired entity. These allocations are based upon estimates which may be revised within one year of the date of acquisition as additional information becomes available. It is anticipated that the final purchase price allocations for these acquisitions will not differ materially from their preliminary allocations. The Company s acquisitions during the first nine months of fiscal year 2008 were considered immaterial compared to the results of the Company s operations and therefore purchase accounting information and pro-forma disclosure are not presented.

During the first nine months of fiscal year 2008, the Company paid approximately $9 million in remaining holdback payments related to prior period acquisitions, which was included in the Accrued expenses and other current liabilities line on the Consolidated Condensed Balance Sheet at March 31, 2007.

Accrued acquisition-related costs and changes in these accruals, including additions related to both the current year and prior year acquisitions were as follows:

	Duplicate Facilities and Other Costs	Employee Costs
	(in millions)	
Balance as of March 31, 2007	$ 27	$ 6
Additions		1
Payments	(5)	(3)
Adjustments	1	
Balance as of December 31, 2007	$ 23	$ 4

The liabilities for duplicate facilities and other costs relate to operating leases, which are actively being renegotiated and expire at various times through 2010, negotiated buyouts of operating lease commitments and other contractual liabilities. The liabilities for employee costs relate to involuntary termination benefits. Adjustments to the corresponding liability and related goodwill accounts are recorded when obligations are settled at amounts less than those originally estimated. The remaining liability balances are included in the Accrued expenses and other current liabilities line item on the Consolidated Condensed Balance Sheets.

NOTE H RESTRUCTURING AND OTHER

Fiscal 2007 Restructuring Plan

In August 2006, the Company announced the Fiscal 2007 Plan to improve the Company s expense structure and increase its competitiveness. The Fiscal 2007 Plan s objectives include a workforce reduction, global facilities consolidations and other cost reduction initiatives. The total cost of the Fiscal 2007 Plan is expected to be approximately $200 million.

Severance: The Company currently estimates a reduction in workforce of approximately 2,400 positions in connection with the Fiscal 2007 Plan, including approximately 300 positions from the divestitures of consolidated majority owned subsidiaries. The termination benefits the Company has offered in connection with this workforce reduction are substantially the same as the benefits the Company has provided historically for non-performance-based workforce reductions. In certain countries, termination benefits have been provided based upon prior experiences with the restructuring plan announced in July 2005 (the Fiscal 2006 Plan) as described below. These costs have been recognized in accordance with SFAS No. 112,

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Employers Accounting for Post Employment Benefits, an Amendment of FASB Statements No. 5 and 43 (SFAS No. 112). Enhancements to termination benefits which exceed past practice or legal requirements are being recognized in accordance with SFAS No. 146, *Accounting for Costs Associated With Exit or Disposal Activities* (SFAS No. 146). The Company recorded severance costs of $8 million and $14 million for the three and nine-month periods ended December 31, 2007, respectively. The Company anticipates the total severance cost for the Fiscal 2007 Plan will be approximately $150 million, of which approximately $142 million has been recognized through December 31, 2007. Substantially all of the costs under the plan are expected to be recognized by the end of fiscal year 2008. The plans associated with the balance of the reductions in workforce are still being finalized and the associated charges will be recorded once the actions are approved by management.

Facilities Abandonment: The Company records the costs associated with lease terminations or abandonments when the Company ceases to utilize the property. Under SFAS No. 146, the liability associated with lease termination or abandonment is measured as the present value of the total remaining lease costs and associated operating costs reduced by estimated sublease rentals that could be reasonably obtained for the property. The Company accretes its obligations related to the facilities abandonment to the then-present value and, accordingly, recognizes accretion expense as a restructuring expense in future periods. The Company incurred approximately $13 million of charges related to abandoned properties during the first nine months of fiscal year 2008, approximately $2 million of which was recorded in the third quarter of fiscal year 2008, and approximately $36 million since the plan s inception. The Company anticipates the total cost for facilities abandonment will be approximately $50 million under the Fiscal 2007 Plan. The majority of the remaining obligation is expected to be recognized by the end of fiscal year 2008.

For the nine-month period ended December 31, 2007, restructuring activity under the Fiscal 2007 Plan was as follows:

	Severance	Facilities Abandonment
	(in millions)	
Accrual balance at March 31, 2007	$ 87	$ 17
Additions	14	13
Payments	(50)	(13)
Accrual balance at December 31, 2007	$ 51	$ 17

The remaining liability for severance is included in the Accrued salaries, wages and commissions line on the Consolidated Condensed Balance Sheet. The liability for the facilities portion of the remaining reserve is included in the Accrued expenses and other current liabilities line item on the Consolidated Condensed Balance Sheet. The costs are included in the Restructuring and other line item on the Consolidated Condensed Statements of Operations for the periods ended December 31, 2007 and 2006.

Fiscal 2006 Restructuring Plan

In July 2005, the Company announced the Fiscal 2006 Plan to increase efficiency and productivity and to align its investments more closely with strategic growth opportunities. The Company accounted for the individual components of the restructuring plan as follows:

Severance: The Fiscal 2006 Plan included a workforce reduction of approximately five percent, or 800 positions, worldwide. The termination benefits the Company offered in connection with this workforce reduction were substantially the same as the benefits the Company has provided historically for non-performance-based workforce reductions. In certain countries, termination benefits were provided based upon statutory minimum requirements. The employee termination obligations incurred in connection with the Fiscal 2006 Plan were accounted for in accordance with SFAS No. 112. In certain countries, the Company elected to provide termination benefits in excess of legal requirements subsequent to the initial

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implementation of the plan. These additional costs have been recognized in accordance with SFAS No. 146. The Company incurred a total of approximately $57 million of severance costs since inception through the third quarter of fiscal year 2008. The Company has recognized substantially all of the severance related costs associated with the Fiscal 2006 Plan. Final payment of these amounts is dependent upon settlement with the works councils in certain international locations.

Facilities Abandonment: The Company recorded the costs associated with lease termination or abandonment when the Company ceased to utilize the leased property. Under SFAS No. 146, the liability associated with lease termination or abandonment is measured as the present value of the total remaining lease costs and associated operating costs, less probable sublease income. The Company incurred a total of approximately $29 million of facilities abandonment costs since inception through the first nine months of fiscal year 2008. The Company accretes its obligations related to the facilities abandonment to the then-present value and, accordingly, recognizes accretion expense as a restructuring expense in future periods. The Company has recognized substantially all of the facilities abandonment costs associated with the Fiscal 2006 Plan.

For the nine-month period ended December 31, 2007, restructuring activity under the Fiscal 2006 Plan was as follows:

	Severance	Facilities Abandonment
	(in millions)	
Accrual balance at March 31, 2007	$ 6	$ 14
(Reductions) additions	(1)	3
Payments	(3)	(4)
Accrual balance at December 31, 2007	$ 2	$ 13

The liability balance for the severance portion of the remaining reserve is included in the Accrued salaries, wages and commissions line on the Consolidated Condensed Balance Sheets of the respective periods. The liability for the facilities portion of the remaining reserve is included in the Accrued expenses and other current liabilities line item on the Consolidated Condensed Balance Sheets.

Other: During the first nine months of fiscal year 2008 the Company incurred approximately $9 million in legal and other related costs in connection with matters reviewed by the Special Litigation Committee, composed of independent members of the Board of Directors (see also Note J, Commitments and Contingencies). Approximately $7 million of these costs were incurred in the third quarter of fiscal year 2008. In the first nine months of fiscal year 2008, the Company recorded impairment charges of approximately $5 million, including approximately $3 million for products that were discontinued. Aproximately $4 million of these charges were recorded in the third quarter of fiscal year 2008. In the first quarter of fiscal year 2008, the Company incurred an approximate $4 million expense related to a loss on the sale of an investment in marketable securities associated with the closure of an international location.

NOTE I INCOME TAXES

The Company s income tax expense for the three and nine-month periods ended December 31, 2007 was approximately $76 million and $238 million, respectively. By comparison, the Company s income tax expense for the corresponding periods in its prior fiscal year was approximately $18 million and $40 million, respectively. For the three and nine-month periods ended December 31, 2007, the Company s income tax provision included charges of approximately $12 million and $23 million, respectively, associated with certain corporate income tax rate reductions enacted in various non-US tax jurisdictions during such periods (with corresponding impacts on the Company s net deferred tax assets). In addition, the Company s income tax provision for the three and nine-month periods ending December 31, 2007 included a credit of approximately $7 million and a net charge of approximately $3 million, respectively, resulting from adjustments related to certain prior year non-US tax provisions. Also included in the Company s income tax provision for the quarter ending December 31, 2007 was an approximate $8 million tax benefit resulting from the release of valuation allowances on deferred tax assets residing with the Company s Asia-Pacific

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subsidiaries. For the three-month period ended December 31, 2006, the tax provision included a net benefit of approximately $5 million, primarily arising from a revision of the Company s estimated Section 199 manufacturing deduction. For the nine-month period ending December 31, 2006, the tax provision included a net benefit of approximately $18 million, primarily arising from the resolution of certain international and U.S. tax contingencies.

On April 1, 2007, the Company adopted FIN 48, which sets forth a comprehensive model for financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. For further information, see Note A, Basis of Presentation . Upon such adoption, the liability for income taxes associated with uncertain tax positions was approximately $282 million and the deferred tax assets arising from such uncertain tax positions (from interest and state income tax deductions) were approximately $48 million. If the unrecognized tax benefits associated with these positions are ultimately recognized, they would primarily affect the Company s effective tax rate and it s Stockholders Equity.

As a result of the Company adopting FIN 48, there was an increase to retained earnings of approximately $11 million and a corresponding decrease to tax liabilities. In addition, the Company reclassified approximately $243 million of income tax liabilities from current to non-current liabilities because the cash payment of such liabilities was not anticipated to occur within one year of the balance sheet date. All non-current income tax liabilities are recorded in the Federal, state and foreign income taxes payable noncurrent line in the Consolidated Condensed Balance Sheets.

Interest and penalties related to income tax liabilities are included in income tax expense. The Company had $40 million of accrued interest expense, net of $23 million in tax benefits, and penalties as of the date of adoption of FIN 48.

As of December 31, 2007, the nature of the uncertain tax positions expected to be resolved within the next twelve (12) months thereafter relate primarily to various U.S. federal and state income tax audits and are recorded in the Federal, state and foreign income taxes payable current line in the Consolidated Condensed Balance Sheets. The Company s estimate of potential changes to its uncertain tax positions within the next twelve months is a reduction of up to $24 million. Such decreases would be primarily attributable to the outcomes of certain ongoing tax audits and/or the expiration of certain statutes of limitations. As of December 31, 2007, the liability for income taxes associated with uncertain tax positions was approximately $286 million (of which $107 million was classified as current) and the deferred tax assets arising from such uncertain tax positions (from interest and state income tax deductions) were approximately $52 million.

The number of years with open tax audits varies from jurisdiction to jurisdiction. The Company has historically viewed its material tax jurisdictions as including the U.S., Japan, Germany, Italy and the U.K. The earliest years still open and subject to ongoing audits or tax proceedings as of the date of adoption of FIN 48 in respect of such jurisdictions were as follows: (i) United States 2001; (ii) Japan 2000; (iii) Germany 2003; (iv) Italy 1999; and (v) the U.K. 1999.

NOTE J COMMITMENTS AND CONTINGENCIES

Certain legal proceedings in which we are involved are discussed in Note 8, Commitments and Contingencies , in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2007 (the 2007 Form 10-K). The following discussion should be read in conjunction with the 2007 Form 10-K.

Stockholder Class Action and Deriv