CA, INC.
Form 10-Q
January 26, 2011

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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, 2010

or

o **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	**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)

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 þ No o

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 þ No o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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

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 January 18, 2011 510,053,016

CA, INC. AND SUBSIDIARIES
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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 condensed consolidated balance sheet of CA, Inc. and subsidiaries as of December 31, 2010, the related condensed consolidated statements of operations for the three-month and nine-month periods ended December 31, 2010 and 2009, and the related condensed consolidated statements of cash flows for the nine-month periods ended December 31, 2010 and 2009. 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, 2010, 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 14, 2010, 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, 2010, 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
January 26, 2011

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Item 1.

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

	December 31, 2010	March 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,518	$ 2,583
Marketable securities current	59	
Trade and installment accounts receivable, net	866	931
Deferred income taxes current	194	360
Other current assets	159	116
TOTAL CURRENT ASSETS	3,796	3,990
Marketable securities noncurrent	108	
Installment accounts receivable, due after one year, net		46
Property and equipment, net of accumulated depreciation of $711 and $630, respectively	439	452
Goodwill	5,742	5,667
Capitalized software and other intangible assets, net	1,299	1,150
Deferred income taxes noncurrent	309	355
Other noncurrent assets, net	198	178
TOTAL ASSETS	$ 11,891	$ 11,838
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt and loans payable	$ 16	$ 15
Accounts payable	81	81
Accrued salaries, wages and commissions	256	348
Accrued expenses and other current liabilities	358	425
Deferred revenue (billed or collected) current	2,342	2,555
Taxes payable, other than income taxes payable current	82	82
Federal, state and foreign income taxes payable current	25	31
Deferred income taxes current	53	51
TOTAL CURRENT LIABILITIES	3,213	3,588
Long-term debt, net of current portion	1,539	1,530
Federal, state and foreign income taxes payable noncurrent	387	400
Deferred income taxes noncurrent	143	134
Deferred revenue (billed or collected) noncurrent	995	1,068
Other noncurrent liabilities	149	135
TOTAL LIABILITIES	6,426	6,855

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; 504,092,317 and 509,469,998 shares outstanding, respectively		59		59
Additional paid-in capital		3,598		3,657
Retained earnings		3,938		3,361
Accumulated other comprehensive loss		(79)		(130)
Treasury stock, at cost, 85,602,764 shares and 80,225,083 shares, respectively		(2,051)		(1,964)
TOTAL STOCKHOLDERS EQUITY		5,465		4,983
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	11,891	$	11,838

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2010	2009	2010	2009
REVENUE				
Subscription and maintenance revenue	$ 995	$ 995	$ 2,917	$ 2,905
Professional services	88	73	245	213
Software fees and other	82	54	204	115
TOTAL REVENUE	1,165	1,122	3,366	3,233
EXPENSES				
Costs of licensing and maintenance	82	73	233	211
Costs of professional services	77	66	223	191
Amortization of capitalized software costs	52	34	145	101
Selling and marketing	348	315	955	879
General and administrative	114	129	344	358
Product development and enhancements	110	117	363	348
Depreciation and amortization of other intangible assets	47	39	136	116
Other expenses (gains), net	5	(3)	9	11
Restructuring and other	(8)	2	(11)	4
TOTAL EXPENSES BEFORE INTEREST AND INCOME TAXES	827	772	2,397	2,219
Income from continuing operations before interest and income taxes	338	350	969	1,014
Interest expense, net	10	23	35	62
Income from continuing operations before income taxes	328	327	934	952
Income tax expense	128	71	289	283
INCOME FROM CONTINUING OPERATIONS	200	256	645	669
Income (loss) from discontinued operations, net of income taxes		1	(6)	1
NET INCOME	$ 200	$ 257	$ 639	$ 670
BASIC INCOME (LOSS) PER SHARE				

Income from continuing operations	$ 0.39	$ 0.49	$ 1.26	$ 1.28
Loss from discontinued operations			(0.01)	
Net income	$ 0.39	$ 0.49	$ 1.25	$ 1.28
Basic weighted average shares used in computation	505	515	507	516
DILUTED INCOME (LOSS) PER SHARE				
Income from continuing operations	$ 0.39	$ 0.49	$ 1.25	$ 1.27
Loss from discontinued operations			(0.01)	
Net income	$ 0.39	$ 0.49	$ 1.24	$ 1.27
Diluted weighted average shares used in computation	506	535	508	539

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

	For the Nine Months Ended December 31, 2010	2009
OPERATING ACTIVITIES:		
Net income	$ 639	$ 670
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	281	220
Provision for deferred income taxes	187	52
Provision for bad debts	5	3
Share-based compensation expense	61	75
Amortization of discount on convertible debt		29
Asset impairments and other non-cash activities		3
Foreign currency transaction losses (gains)	3	(3)
Changes in other operating assets and liabilities, net of effect of acquisitions:		
Decrease in trade and current installment accounts receivable, net	112	13
Decrease in deferred revenue	(304)	(266)
(Decrease) increase in taxes payable, net	(82)	14
Decrease in accounts payable, accrued expenses and other	(18)	(39)
Decrease in accrued salaries, wages and commissions	(56)	(2)
Decrease in restructuring liabilities	(56)	(40)
Changes in other operating assets and liabilities	(29)	(5)
NET CASH PROVIDED BY OPERATING ACTIVITIES	743	724
INVESTING ACTIVITIES:		
Acquisitions of businesses, net of cash acquired, and purchased software	(252)	(203)
Purchases of property and equipment	(73)	(57)
Cash proceeds from divestiture of assets	29	
Capitalized software development costs	(116)	(133)
Purchases of marketable securities	(168)	
Other investing activities	(17)	(3)
NET CASH USED IN INVESTING ACTIVITIES	(597)	(396)
FINANCING ACTIVITIES:		
Dividends paid	(61)	(63)
Purchases of common stock	(188)	(90)
Debt repayments	(9)	(1,203)
Debt borrowings		744
Debt issuance costs		(6)
Proceeds from call spread option		55
Exercise of common stock options and other	7	6
NET CASH USED IN FINANCING ACTIVITIES	(251)	(557)
	(105)	(229)

DECREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES ON CASH		
Effect of exchange rate changes on cash	40	141
DECREASE IN CASH AND CASH EQUIVALENTS	(65)	(88)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,583	2,712
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,518	$ 2,624

See accompanying Notes to the Condensed Consolidated Financial Statements.

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CA, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010
(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, 2010 (2010 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 and nine months ended December 31, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2011.

Divestitures:

In June 2010, the Company sold its Information Governance business to Autonomy Corporation plc (Autonomy). The results of operations and loss on discontinued operations associated with this business have been presented as discontinued operations in the accompanying Condensed Consolidated Statements of Operations for the nine months ended December 31, 2010 and for the three and nine months ended December 31, 2009. The effects of the discontinued operations were considered immaterial to the Company s Condensed Consolidated Balance Sheet at March 31, 2010 and Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2010 and 2009. See Note N, Discontinued Operations, for additional information.

In September 2010, the Company sold an equity investment and recognized a gain of approximately $10 million, which is included in Other expenses (gains), net in the Company s Condensed Consolidated Statements of Operations for the nine months ended December 31, 2010.

Cash Dividends:

The Company s Board of Directors declared the following dividends during the nine months ended December 31, 2010 and 2009:

Declaration Date	Dividend Per Share	Record Date	Total Amount *(in millions)*	Payment Date
Nine Months Ended December 31, 2010:				
May 12, 2010	$ 0.04	May 31, 2010	$ 21	June 16, 2010
July 28, 2010	$ 0.04	August 9, 2010	$ 20	August 19, 2010
December 2, 2010	$ 0.04	December 13, 2010	$ 20	December 22, 2010
Nine Months Ended December 31, 2009:				
May 20, 2009	$ 0.04	May 31, 2009	$ 21	June 16, 2009
July 29, 2009	$ 0.04	August 10, 2009	$ 21	August 19, 2009
November 5, 2009	$ 0.04	November 17, 2009	$ 21	November 30, 2009

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

Cash and Cash Equivalents:

The Company s cash and cash equivalents are held in numerous locations throughout the world, with approximately 52% being held outside the United States by the Company s foreign subsidiaries at December 31, 2010.

Marketable Securities:

All marketable securities are classified as available-for-sale securities and are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and are reported as a separate component of accumulated other comprehensive income until realized. Premiums and discounts on debt securities recorded at the date of purchase are recognized in Interest expense, net using the effective interest method. Realized gains and losses on sales of all such investments are reported in Interest expense, net and are computed using the specific identification cost method.

For marketable securities in an unrealized loss position, the Company is required to assess whether it intends to sell the security or will more likely than not be required to sell the security before the recovery of its amortized cost basis less any current-period credit loss. If either of these conditions is met, an other-than-temporary impairment on the security is recognized in Interest expense, net equal to the entire difference between its fair value and amortized cost basis. See Note E, Marketable Securities 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.

Stock Repurchases:

In April 2010, the Company completed the $250 million stock repurchase program authorized by its Board of Directors on October 29, 2008 by repurchasing approximately 0.8 million shares of its common stock for approximately $19 million. On May 12, 2010, the Company s Board of Directors approved a new stock repurchase program that authorizes the Company to acquire up to $500 million of its common stock. Under the new program, the Company has repurchased approximately 8.5 million shares of its common stock for approximately $170 million as of December 31, 2010.

Statements of Cash Flows:

For the nine months ended December 31, 2010 and 2009, interest payments were approximately $67 million and $60 million, respectively, and taxes paid were approximately $161 million and $197 million, respectively.

Non-cash financing activities for the nine months ended December 31, 2010 and 2009 consisted of treasury shares issued in connection with the following: share-based incentive awards granted under the Company s equity compensation plans of approximately $63 million (net of approximately $27 million of taxes withheld) and $63 million (net of approximately $22 million of taxes withheld), respectively; and discretionary stock contributions to the CA, Inc. Savings Harvest Plan of approximately $25 million and $24 million, respectively. Non-cash financing activities for the nine months ended December 31, 2009 included approximately $21 million in treasury common shares issued in connection with the Company s Employee Stock Purchase Plan. The Company discontinued its Employee Stock Purchase Plan on June 30, 2009.

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CA, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE B 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 and nine months ended December 31, 2010 and 2009 are as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
	(in millions)			
Net income	$ 200	$ 257	$ 639	$ 670
Net unrealized gain on cash flow hedges, net of tax		1	2	2
Unrealized gain/(loss) on marketable securities, net of tax(1)				
Foreign currency translation adjustments	9	(3)	49	70
Total comprehensive income	$ 209	$ 255	$ 690	$ 742

(1) Less than $1 million.

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CA, INC. AND SUBSIDIARIES
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NOTE C 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 and convertible notes. The following table reconciles net income per common share for the three and nine months ended December 31, 2010 and 2009.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
	(in millions, except per share amounts)			
Basic income from continuing operations per common share:				
Income from continuing operations	$ 200	$ 256	$ 645	$ 669
Less: Income from continuing operations allocable to participating securities	(2)	(3)	(8)	(7)
Income from continuing operations allocable to common shares	$ 198	$ 253	$ 637	$ 662
Weighted-average common shares outstanding	505	515	507	516
Basic income from continuing operations per common share	$ 0.39	$ 0.49	$ 1.26	$ 1.28
Diluted income from continuing operations per common share:				
Income from continuing operations	$ 200	$ 256	$ 645	$ 669
Add: Interest expense associated with Convertible Senior Notes, net of tax		7		22
Less: Income from continuing operations allocable to participating securities	(2)	(3)	(8)	(7)
Income from continuing operations allocable to common shares	$ 198	$ 260	$ 637	$ 684
Weighted average shares outstanding and common share equivalents				

Weighted average common shares outstanding	505	515	507	516
Weighted average shares outstanding upon conversion of Convertible Senior Notes		18		21
Weighted average effect of share-based payment awards	1	2	1	2
Denominator in calculation of diluted income per share	506	535	508	539
Diluted income from continuing operations per common share	$ 0.39	$ 0.49	$ 1.25	$ 1.27

For the three months ended December 31, 2010 and 2009, respectively, approximately 5 million and 8 million 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.

CA, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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For the nine months ended December 31, 2010 and 2009, respectively, approximately 8 million and 12 million 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 6 million and 6 million common shares for both the three months and nine months ended December 31, 2010 and 2009 were considered participating securities in the allocation of net income available to common shareholders used in the computation of earnings per share.

NOTE D 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 December 31, 2010	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009
	(in millions)			
Costs of licensing and maintenance	$ 1	$ (1)	$ 3	$ 2
Costs of professional services	1	1	3	2
Selling and marketing	8	8	23	25
General and administrative	7	7	17	29
Product development and enhancements	4	6	15	17
Share-based compensation expense before tax	21	22	61	75
Income tax benefit	(7)	(8)	(20)	(26)
Net share-based compensation expense	$ 14	$ 14	$ 41	$ 49

(1) Less than $1 million.

There were no capitalized share-based compensation costs for the three and nine months ended December 31, 2010 or 2009.

The following table summarizes information about unrecognized share-based compensation costs as of December 31, 2010:

	Unrecognized Compensation Costs *(in millions)*	Weighted Average Period Expected to be Recognized *(in years)*
Stock option awards	$ 4	2.5
Restricted stock units	13	2.1
Restricted stock awards	63	1.9
Performance share units	31	2.6
Total unrecognized share-based compensation costs	$ 111	2.1

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 (who may reduce any award for any reason in their discretion).

For the nine months ended December 31, 2010, the Company issued options for approximately 1.2 million shares of common stock. The weighted average fair value and assumptions used for these options were: weighted average fair value, $5.55; dividend yield, 0.83%; expected volatility factor, 0.34; risk-free interest rate, 1.8%; and expected term, 4.5 years.

CA, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The table below summarizes all of the RSUs and RSAs, including PSU grants made pursuant to the long-term incentive plans discussed above, granted during the three and nine months ended December 31, 2010 and 2009:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
	(shares in millions)			
RSUs				
Shares	(1)	(1)	0.6	0.6
Weighted Avg. Grant Date Fair Value (2)	$ 21.69	$ 22.58	$ 21.30	$ 17.52
RSAs				
Shares	(1)	0.1	4.7	4.3
Weighted Avg. Grant Date Fair Value (3)	$ 22.19	$ 21.82	$ 21.39	$ 18.43

(1) Less than 0.1 million.

(2) The fair value is based on the quoted market value of the Company s common stock on the grant date reduced by the present value of dividends expected to be paid on the Company s common stock prior to vesting of the RSUs, which is calculated using a risk free interest rate.

(3) The fair value is based on the quoted market value of the Company s common stock on the grant date.

NOTE E MARKETABLE SECURITIES

At December 31, 2010 available-for-sale securities consisted of the following:

	December 31, 2010 *(in millions)*			
	Aggregate Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
U.S. treasury and agency securities	$ 24	$	$	$ 24
Municipal securities	1			1
Corporate debt securities	142			142
Equity securities	1		(1)	
	$ 168	$	$ (1)	$ 167

At December 31, 2010, the Company did not have any debt securities that were in a continuous unrealized loss position for greater than twelve months.

At March 31, 2010, the Company had less than $1 million of marketable securities.

At December 31, 2010, approximately $59 million of marketable securities had scheduled maturities of less than one year. At December 31, 2010, approximately $108 million of marketable securities have maturities of greater than one year, but do not exceed three years.

Proceeds from the sale of marketable securities, realized gains and realized losses were less than $1 million for the three and nine months ended December 31, 2010 and 2009.

CA, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010
(unaudited)

NOTE F TRADE AND INSTALLMENT ACCOUNTS RECEIVABLE

Trade and installment accounts receivable, net represent amounts due from the Company s customers. These balances are presented net of allowance for doubtful accounts and unamortized discounts. Unamortized discounts reflect imputed interest for the time value of money for license and maintenance agreements signed prior to October 2000 (prior business model). These balances include revenue recognized in advance of customer billings but do not include unbilled contractual commitments executed under license agreements implemented since October 2000. The components of trade and installment accounts receivable, net are as follows:

	December 31, 2010	March 31, 2010
	(in millions)	
Current:		
Accounts receivable billed	$ 740	$ 768
Accounts receivable unbilled	83	72
Other receivables	20	26
Unbilled amounts due within the next 12 months prior business model	47	93
Less: Allowance for doubtful accounts	(23)	(24)
Less: Unamortized discounts	(1)	(4)
Trade and installment accounts receivable, net	$ 866	$ 931
Noncurrent:		
Unbilled amounts due beyond the next 12 months prior business model	$	$ 46
Installment accounts receivable, due after one year, net	$	$ 46

NOTE G GOODWILL, CAPITALIZED SOFTWARE AND OTHER INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization for capitalized software and other intangible assets at December 31, 2010 were approximately $7,359 million and $6,060 million, respectively. These amounts include fully amortized intangible assets of approximately $5,274 million, composed of purchased software of approximately $4,656 million, internally developed software of approximately $498 million and other identified intangible assets subject to amortization of approximately $120 million. The remaining gross carrying amounts and accumulated amortization for capitalized software and other intangible assets that are not fully amortized are as follows:

	At December 31, 2010		
	Gross Amortizable Assets	Accumulated Amortization	Net Assets
		(in millions)	
Purchased software products	$ 772	$ 179	$ 593
Capitalized development cost and other intangibles:			
Internally developed software products	649	187	462
Other identified intangible assets subject to amortization	650	420	230

Other identified intangible assets not subject to amortization	14		14
Total capitalized software and other intangible assets	$ 2,085	$ 786	$ 1,299

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CA, INC. AND SUBSIDIARIES
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(unaudited)

Based on the capitalized software and other intangible assets recorded through December 31, 2010, the annual amortization expense over the next five fiscal years is expected to be as follows:

	Year Ended March 31,				
	2011	2012	2013	2014	2015
			(in millions)		
Capitalized software:					
Purchased	$ 89	$ 85	$ 79	$ 71	$ 60
Internally developed	103	118	110	92	66
Other identified intangible assets subject to amortization	72	55	46	42	37
Total	$ 264	$ 258	$ 235	$ 205	$ 163

For the nine months ended December 31, 2010, goodwill activity was as follows:

	Amounts *(in millions)*
Balance at March 31, 2010	$ 5,667
Revisions to purchase price allocation of prior year acquisitions	(59)
Balance at March 31, 2010 as revised	$ 5,608
Amounts allocated to loss on discontinued operations	(11)
Current year acquisitions	137
Foreign currency translation adjustment	8
Balance at December 31, 2010	$ 5,742

NOTE H DERIVATIVES AND FAIR VALUE MEASUREMENTS

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: During the first nine months of fiscal year 2011, the Company entered into interest rate swaps with a total notional value of $200 million to swap a total of $200 million of its 6.125% Senior Notes due December 2014 into floating interest rate debt through December 1, 2014. As a result, the Company has interest rate swaps with a total notional value of $500 million to 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 and are being accounted for in accordance with the shortcut method of FASB ASC Topic 815.

As of December 31, 2010, the fair value of these derivatives was approximately $19 million, of which approximately $12 million is included in Other current assets and approximately $7 million is included in Other noncurrent assets, net in the Company s Condensed Consolidated Balance Sheet. As of March 31, 2010, the fair value of these derivatives was approximately $1 million and is included in Other current assets in the Company s Condensed Consolidated Balance Sheet.

During fiscal year 2009, the Company entered into separate interest rate swaps with a total notional value of $250 million to hedge a portion of its variable interest rate payments. These derivatives were designated as cash flow hedges and matured in October 2010.

The effective portion of these cash flow hedges was recorded as Accumulated other comprehensive loss in the Company s Condensed Consolidated Balance Sheets and was reclassified into Interest expense, net, in the Company s Condensed Consolidated Statements of Operations in the same period during which the hedged transaction affected earnings. Any ineffective portion of the cash flow hedges would

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have been recorded immediately to Interest expense, net ; however, no ineffectiveness existed for the periods ended December 31, 2010 and 2009.

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. As of December 31, 2010, foreign currency contracts outstanding consisted of purchase and sales contracts with a total notional value of approximately $470 million, and durations of less than three months. The net fair value of these contracts at December 31, 2010 was approximately $2 million, of which approximately $8 million is included in Other current assets and approximately $6 million is included in Accrued expenses and other current liabilities in the Company s Condensed Consolidated Balance Sheet.

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 *(in millions)*	
Location of Amounts Recognized	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009
Interest expense, net interest rate swaps designated as cash flow hedges	$ 1	$ 2
Interest expense, net interest rate swaps designated as fair value hedges	$ (3)	$
Other expenses (gains), net foreign currency contracts	$ 1	$

	Amount of Net (Gain)/Loss Recognized in the Condensed Consolidated Statements of Operations *(in millions)*	
Location of Amounts Recognized	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009
Interest expense, net interest rate swaps designated as cash flow hedges	$ 4	$ 5
Interest expense, net interest rate swaps designated as fair value hedges	$ (9)	$
Other expenses (gains), net foreign currency contracts	$ 9	$ 25

The amount of loss reclassified from Accumulated other comprehensive income into Interest expense, net in the Company s Condensed Consolidated Statements of Operations was less than $1 million and approximately $4 million for the three and nine months ended December 31, 2010, respectively.

The Company is party 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 value of all derivative instruments under these collateralized arrangements were in a net asset position at December 31, 2010 and therefore the Company posted no

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collateral. 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.

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Items Measured at Fair Value on a Recurring Basis

The following table presents the Company s assets and liabilities that are measured at fair value on a recurring basis at December 31 and March 31, 2010.

	Fair Value Measurement at Reporting Date Using (in millions)		
Description	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)[1]	Significant Other Observable Inputs (Level 2)[2]
At December 31, 2010			
Assets:			
Money markets [3]	$ 1,612	$ 1,612	$
Marketable securities[4]	167		167
Foreign exchange derivatives not designated as hedges	8		8
Interest rate derivatives designated as fair value hedges[5]	19		19
Total Assets	$ 1,806	$ 1,612	$ 194
Liabilities:			
Foreign exchange derivatives not designated as hedges	$ 6	$	$ 6
Total Liabilities	$ 6	$	$ 6
At March 31, 2010			
Assets:			
Money markets[6]	$ 1,805	$ 1,805	$
Interest rate derivatives designated as fair value hedges[5]	1		1
Total Assets	$ 1,806	$ 1,805	$ 1
Liabilities:			
Interest rate derivatives designated as cash flow hedges	$ 4	$	$ 4
Total Liabilities	$ 4	$	$ 4

(1) Level 1 is defined as quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities.

(2) Level 2 is defined as quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly.

(3) At December 31, 2010, the Company had approximately $1,562 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, in its Condensed Consolidated Balance Sheet.

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

(5) Excludes accrued interest.

(6) At March 31, 2010, the Company had approximately $1,755 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, in its Condensed Consolidated Balance Sheet.

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At December 31 and March 31, 2010, 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 December 31, 2010:

	At December 31, 2010 *(in millions)*	
	Carrying Value	Estimated Fair Value
Liabilities:		
Total debt [1]	$1,555	$ 1,615
Facilities abandonment reserve [2]	$ 54	$ 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. The facilities abandonment reserve includes approximately $17 million in Accrued expenses and other current liabilities and approximately $37 million in Other noncurrent liabilities on the Company s Condensed Consolidated Balance Sheet.

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 March 31, 2010:

	At March 31, 2010 *(in millions)*	
	Carrying Value	Estimated Fair Value
Assets:		
Noncurrent portion of installment accounts receivable [1]	$ 46	$ 46
Liabilities:		
Total debt [2]	$1,545	$ 1,600
Facilities abandonment reserve [3]	$ 69	$ 79

(1) Estimated fair value of the noncurrent portion of installment accounts receivable approximates carrying value due to the relatively short term to maturity.

(2) Estimated fair value of total debt is 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.

(3) Estimated fair value for the facilities abandonment reserve was determined using the Company s incremental borrowing rate at March 31, 2010. The facilities abandonment reserve includes approximately $22 million in Accrued expenses and other current liabilities and approximately $47 million 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.

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NOTE I RESTRUCTURING

Fiscal 2010 restructuring plan: The fiscal 2010 restructuring plan (Fiscal 2010 Plan) was approved on March 31, 2010. The Fiscal 2010 Plan is composed of a workforce reduction of approximately 1,000 positions and global facilities consolidations. These actions are 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. Actions under the Fiscal 2010 Plan were substantially completed by the end of the second quarter of fiscal year 2011.

For the nine months ended December 31, 2010, restructuring activity under the Fiscal 2010 plan was as follows:

	Severance	Facilities Abandonment
	(in millions)	
Accrued balance at March 31, 2010	$ 46	$ 2
Changes in estimate	(3)	
Payments	(34)	
Accretion and other	(1)	
Accrued balance at December 31, 2010	$ 8	$ 2

The liability balance for the severance portion of the remaining reserve is included in the Accrued salaries, wages and commissions line item on the Company s Condensed Consolidated Balance Sheet.

Fiscal 2007 restructuring plan: In August 2006, the Company announced the fiscal 2007 restructuring plan (Fiscal 2007 Plan) to improve the Company s expense structure. The Fiscal 2007 Plan s objectives included a workforce reduction, global facilities consolidations and other cost reduction initiatives. The Company has recognized substantially all of the costs associated with the Fiscal 2007 Plan.

The reduction in workforce included approximately 3,100 individuals under the Fiscal 2007 Plan. Most of these actions have been completed; however, final payment of the severance amounts is dependent upon settlement with the works councils in certain international locations. The Company has also recognized substantially all of the facilities abandonment costs associated with the Fiscal 2007 Plan.

For the nine months ended December 31, 2010, restructuring activity under the Fiscal 2007 Plan was as follows:

	Severance	Facilities Abandonment
	(in millions)	
Accrued balance at March 31, 2010	$ 8	$ 60
Changes in estimate	1	1
Payments	(4)	(14)
Accretion and other		1
Accrued balance at December 31, 2010	$ 5	$ 48

The liability balance for the severance portion of the remaining reserve is included in the Accrued salaries, wages and commissions line item on the Company s Condensed Consolidated Balance Sheet. The liability for the facilities abandonment portion of the remaining reserve is included in the Accrued expenses and other current liabilities and Other noncurrent liabilities line items on the Company s Condensed Consolidated Balance Sheet.

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NOTE J INCOME TAXES

Income tax expense for the three and nine months ended December 31, 2010 was $128 million and $289 million, respectively, compared with the three and nine months ended December 31, 2009 of $71 million and $283 million, respectively.

For the three and nine months ended December 31, 2010, the Company recognized a net tax expense of approximately $26 million and a net tax benefit of approximately $10 million, respectively, resulting primarily from refinements of tax positions taken in prior periods, assertion of affirmative claims in the context of tax audits, the resolutions and accruals of uncertain tax positions relating to non-U.S. jurisdictions and the retroactive reinstatement in December 2010 of the research and development tax credit in the U.S. For the three and nine months ended December 31, 2009, the Company s income tax provision included net benefits of approximately $23 million and $30 million, respectively, resulting from reconciliations of tax returns to tax provisions, the resolution of uncertain tax positions relating to non-U.S. jurisdictions and refinements of estimates ascribed to tax positions taken in prior periods relating to the Company s international tax profile.

Additions and reductions to the liability for uncertain tax positions in the nine months ended December 31, 2010 were approximately $205 million and $61 million, respectively, which are primarily comprised of additions for uncertain tax positions related to the current and prior year, and reductions for prior year tax positions arising from settlement payments and statute of limitations expirations.

The Company s effective tax rate, excluding the impact of discrete items, for the nine months ended December 31, 2010 and December 31, 2009 was 32.0% and 31.9%, respectively. Changes in the anticipated results of the Company s international operations, the outcome of tax audits and any other changes in potential tax liabilities may result in additional tax expense or benefit in future periods, which are not considered in the Company s estimated annual effective tax rate. The Company does not currently view any such items as individually material to the results of the Company s operations or financial position. However, the impact of such items may yield additional tax expense in the fourth quarter of fiscal year 2011 and future periods and the Company is anticipating a fiscal year 2011 effective tax rate of approximately 32% to 33%.

NOTE K COMMITMENTS AND CONTINGENCIES

Certain legal proceedings in which the Company is involved are discussed in Note 9, Commitments and Contingencies, in the Notes to the Consolidated Financial Statements included in the Company s 2010 Form 10-K. The following discussion should be read in conjunction with those financial statements.

Stockholder Derivative Litigation

In June and July 2004, three purported derivative actions were filed in the United States District Court for the Eastern District of New York (the Federal Court), which were consolidated in November 2004 into *Computer Associates International, Inc., Derivative Litigation* , No. 04 Civ. 2697 (E.D.N.Y.) (the Derivative Action). The derivative plaintiffs filed a consolidated amended complaint (the Consolidated Complaint) on January 7, 2005. The Consolidated Complaint sought relief against certain current or former employees and/or directors and outside auditors of the Company based on a variety of claims. The Company was named as a nominal defendant.

On February 1, 2005, the Company established a Special Litigation Committee of members of its Board of Directors who were independent of the defendants to, among other things, control and determine the Company s response to the Derivative Action. The Special Litigation Committee and the Company served motions seeking to dismiss and realign the claims and parties in accordance with the Special Litigation Committee s recommendations. By an Order dated September 29, 2010, the Federal Court granted the Company s motion in all respects, granting relief including the following: (1) dismissing the claims against current and former Company directors Kenneth Cron, Alfonse D Amato, William de Vogel, Gary Fernandes, Richard Grasso, Robert E. La Blanc, Jay W. Lorsch, Roel Pieper, Lewis Ranieri and Walter P. Schuetze and Ernst & Young LLP, KPMG LLP and Michael A. McElroy; and (2) realigning the Company as plaintiff with respect to certain of the claims against Charles Wang, Peter Schwartz, Russell Artzt, David

Kaplan, Sanjay Kumar, Charles McWade, Stephen Richards, David Rivard, Lloyd Silverstein, Steven Woghin and Ira Zar (the realigned defendants). The Company has

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settled with all realigned defendants other than Messrs. Wang and Schwartz against whom an amended complaint was filed on December 23, 2010 seeking compensatory and punitive damages for (1) breach of fiduciary duty; (2) restitution and unjust enrichment; (3) fraud; and (4) other related actions.

During the three months ended December 31, 2010, the Company received approximately $10 million in connection with one-time litigation settlements associated with the above derivative litigation. The settlements received were recorded in the Restructuring and other line of the Condensed Consolidated Statements of Operations.

Other Civil Actions

In April 2010, a lawsuit captioned *Stragent, LLC et ano. v. Amazon.com, Inc., et al.* was filed in the United States District Court for the Eastern District of Texas against the Company and five other defendants. The complaint alleges, among other things, that Company technology, including the 2E product, infringes a patent assigned to plaintiff SeeSaw Foundation and licensed to plaintiff Stragent LLC, entitled Method of Providing Data Dictionary-Driven Web-Based Database Applications, U.S. Patent No. 6,832,226. The complaint seeks monetary damages and interest in an undisclosed amount, and costs, based upon plaintiffs patent infringement claims. In May 2010, the Company filed an answer and counterclaims that, among other things, dispute the plaintiffs claims and seek a declaratory judgment that the