CA, INC.
Form 10-Q
July 28, 2016
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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 June 30, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______
Commission File Number 1-9247

CA, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-2857434 (I.R.S. Employer Identification Number)
520 Madison Avenue, New York, New York	10022
(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 ¨
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 ¨
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 ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No 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	as of July 21, 2016
par value $0.10 per share	418,948,659

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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 June 30, 2016, and the related condensed consolidated statements of operations, comprehensive income and cash flows for the three-month periods ended June 30, 2016 and 2015. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews 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 reviews, 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, 2016, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated May 12, 2016, 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, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP
New York, New York
July 28, 2016

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Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2016 (unaudited)	March 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 2,776	$ 2,812
Trade accounts receivable, net	430	625
Other current assets	144	124
Total current assets	$ 3,350	$ 3,561
Property and equipment, net of accumulated depreciation of $830 and $832, respectively	$ 229	$ 242
Goodwill	6,084	6,086
Capitalized software and other intangible assets, net	725	795
Deferred income taxes	405	407
Other noncurrent assets, net	114	113
Total assets	$ 10,907	$ 11,204
Liabilities and stockholders’ equity		
Current liabilities:		
Current portion of long-term debt	$ 4	$ 6
Accounts payable	78	77
Accrued salaries, wages and commissions	141	205
Accrued expenses and other current liabilities	337	352
Deferred revenue (billed or collected)	2,027	2,197
Taxes payable, other than income taxes payable	29	55
Federal, state and foreign income taxes payable	22	2
Total current liabilities	$ 2,638	$ 2,894
Long-term debt, net of current portion	$ 1,946	$ 1,947
Federal, state and foreign income taxes payable	145	148
Deferred income taxes	2	3
Deferred revenue (billed or collected)	654	737
Other noncurrent liabilities	95	97
Total liabilities	$ 5,480	$ 5,826
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; 414,125,562 and 412,596,452 shares outstanding, respectively	59	59
Additional paid-in capital	3,628	3,664
Retained earnings	6,666	6,575
Accumulated other comprehensive loss	(445)	(416)
Treasury stock, at cost, 175,569,519 and 177,098,629 shares, respectively	(4,481)	(4,504)
Total stockholders’ equity	$ 5,427	$ 5,378
Total liabilities and stockholders’ equity	$ 10,907	$ 11,204

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 June 30,	
	2016	2015
Revenue:		
Subscription and maintenance	$826	$836
Professional services	77	79
Software fees and other	96	62
Total revenue	$999	$977
Expenses:		
Costs of licensing and maintenance	$68	$66
Cost of professional services	75	71
Amortization of capitalized software costs	66	60
Selling and marketing	242	226
General and administrative	88	90
Product development and enhancements	148	136
Depreciation and amortization of other intangible assets	20	27
Other expenses (gains), net	—	(3)
Total expenses before interest and income taxes	$707	$673
Income from continuing operations before interest and income taxes	$292	$304
Interest expense, net	15	9
Income from continuing operations before income taxes	$277	$295
Income tax expense	79	88
Income from continuing operations	$198	$207
Income from discontinued operations, net of income taxes	—	5
Net income	$198	$212
Basic income per common share:		
Income from continuing operations	$0.47	$0.47
Income from discontinued operations	—	0.01
Net income	$0.47	$0.48
Basic weighted average shares used in computation	414	436
Diluted income per common share:		
Income from continuing operations	$0.47	$0.47
Income from discontinued operations	—	0.01
Net income	$0.47	$0.48
Diluted weighted average shares used in computation	415	438

See accompanying Notes to the Condensed Consolidated Financial Statements

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CA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(in millions)

	For the Three Months Ended June 30,	
	2016	2015
Net income	$198	$212
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(29)	32
Total other comprehensive (loss) income	$(29)	$32
Comprehensive income	$169	$244

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 Three Months Ended June 30, 2016	2015
Operating activities from continuing operations:		
Net income	$198	$212
Income from discontinued operations	—	(5)
Income from continuing operations	$198	$207
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	86	87
Deferred income taxes	3	(10)
Provision for bad debts	1	1
Share-based compensation expense	29	22
Other non-cash items	1	—
Foreign currency transaction (gains) losses	(2)	3
Changes in other operating assets and liabilities, net of effect of acquisitions:		
Decrease in trade accounts receivable	193	228
Decrease in deferred revenue	(245)	(239)
(Decrease) increase in taxes payable, net	(41)	27
Increase (decrease) in accounts payable, accrued expenses and other	8	(33)
Decrease in accrued salaries, wages and commissions	(65)	(83)
Changes in other operating assets and liabilities	(5)	(22)
Net cash provided by operating activities - continuing operations	$161	$188
Investing activities from continuing operations:		
Acquisitions of businesses, net of cash acquired, and purchased software	$(1)	$(37)
Purchases of property and equipment	(8)	(13)
Net cash used in investing activities - continuing operations	$(9)	$(50)
Financing activities from continuing operations:		
Dividends paid	$(107)	$(110)
Purchases of common stock	(50)	(50)
Notional pooling borrowings	190	1,760
Notional pooling repayments	(186)	(1,776)
Debt repayments	(4)	(5)
Exercise of common stock options	13	4
Other financing activities	—	(23)
Net cash used in financing activities - continuing operations	$(144)	$(200)
Effect of exchange rate changes on cash	$(44)	$69
Net change in cash and cash equivalents - continuing operations	$(36)	$7
Cash provided by operating activities - discontinued operations	$—	$5
Net effect of discontinued operations on cash and cash equivalents	$—	$5
(Decrease) increase in cash and cash equivalents	$(36)	$12
Cash and cash equivalents at beginning of period	$2,812	$2,804
Cash and cash equivalents at end of period	$2,776	$2,816

See accompanying Notes to the Condensed Consolidated Financial Statements

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

NOTE A – ACCOUNTING POLICIES
Basis of Presentation: The accompanying unaudited Condensed Consolidated Financial Statements of CA, Inc. (Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 270, for interim financial information and with the instructions to Rule 10-01 of Securities and Exchange Commission 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, 2016 (2016 Form 10-K). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal, recurring nature.
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, these estimates may ultimately differ from actual results.
Operating results for the three months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2017.
Divestitures: In the fourth quarter of fiscal year 2016, the Company sold its CA ERwin Data Modeling solution assets (ERwin). The results of operations associated with this business have been presented as discontinued operations in the accompanying Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows for the three months ended June 30, 2015.
Cash and Cash Equivalents: The Company's cash and cash equivalents are held in numerous locations throughout the world, with approximately 76% being held by the Company's foreign subsidiaries outside the United States at June 30, 2016.
New Accounting Pronouncements: In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, which creates new ASC Topic 606 (Topic 606) that will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In July 2015, the FASB issued a one-year deferral of the effective date of the new revenue recognition standard. In March 2016, April 2016 and May 2016, the FASB issued additional amendments to the technical guidance of Topic 606. Topic 606 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard will be effective for the Company's first quarter of fiscal year 2019 and early application for fiscal year 2018 is permitted. The Company is currently evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures. Topic 606 is expected to have a significant effect on the Company's revenue recognition policies and disclosures. The Company has not yet selected a transition method nor has it determined the effect the standard will have on its ongoing financial reporting.
In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases (Topic 842), which requires a lessee to recognize assets and liabilities on its consolidated balance sheet for leases with accounting lease terms of more than 12 months. ASU 2016-02 will replace most existing lease accounting guidance in U.S. GAAP when it becomes effective. The new standard states that a lessee will recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of operations. ASU 2016-02 will be effective for the Company's first quarter of fiscal year 2020 and requires the modified retrospective method of adoption. Early adoption is permitted. Although the Company is currently evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures, the Company expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 (ASU 2016-09), Improvements to Employee Share-Based Payment Accounting (Topic 718), which is intended to simplify several aspects of the accounting for share-based payment award transactions, including the income tax consequences and classification on the statement of cash flows. ASU 2016-09 will be effective for the Company’s first quarter of fiscal year 2018 and early adoption is permitted. The Company is currently evaluating the guidance to determine the adoption methods and the effect that ASU 2016-09 will have on its consolidated financial statements and related disclosures.

NOTE B – ACQUISITIONS

On July 8, 2015, the Company completed its acquisition of Rally Software Development Corp. (Rally), a provider of Agile development software and services. The acquisition of Rally broadens the Company's solution set and capabilities to better serve customers in the application economy. Pursuant to the terms of the acquisition agreement and related tender offer, the Company acquired 100% of the outstanding shares of Rally common stock for approximately $519 million. The purchase price allocation for Rally is provided within the table below.

The purchase price allocation for the Company's other acquisitions during fiscal year 2016, including the second quarter acquisition of Xceedium, Inc. (Xceedium), is included within the "Other Fiscal Year 2016 Acquisitions" column below. The acquisition of Xceedium and the Company's other acquisitions during fiscal year 2016 were immaterial, both individually and in the aggregate.

(dollars in millions)	Rally	Other Fiscal Year 2016 Acquisitions	Estimated Useful Life
Finite-lived intangible assets [1]	$78	$ 14	1-15 years
Purchased software	178	96	5-7 years
Goodwill	257	59	Indefinite
Deferred tax liabilities, net	(45)	(24)	—
Other assets net of other liabilities assumed [2]	51	2	—
Purchase price	$519	$ 147	

(1) Includes customer relationships and trade names.

(2) Includes approximately $13 million of cash acquired and approximately $48 million of short-term investments acquired relating to Rally.

The allocation of purchase price to acquired identifiable assets, including intangible assets, for Rally was finalized during the first quarter of fiscal year 2017. The excess purchase price over the estimated value of the net tangible and identifiable intangible assets was recorded to goodwill. The allocation of the purchase price to goodwill was predominantly due to synergies the Company expects to achieve through integration of the acquired technology with the Company's existing product portfolio and the intangible assets that are not separable, such as assembled workforce and going concern. The goodwill relating to the Company's acquisition of Rally was not deductible for tax purposes and was allocated to the Enterprise Solutions segment. The goodwill relating to the Company's other fiscal year 2016 acquisitions was not deductible for tax purposes and was allocated to the Enterprise Solutions segment.

The pro forma effects of the Company's fiscal year 2016 acquisitions on the Company's revenues and results of operations during fiscal year 2016 were considered immaterial.

The Condensed Consolidated Statements of Operations for the three months ended June 30, 2016 included total revenue of $35 million for the Company's fiscal year 2016 acquisitions of Rally and Xceedium. The Condensed Consolidated Statements of Operations for the three months ended June 30, 2016 included net loss of $5 million for the Company's fiscal year 2016 acquisitions of Rally and Xceedium. Revenues and results of operations since the date of acquisition for the Company's other fiscal 2016 acquisitions were considered immaterial.

The Company had approximately $3 million and $3 million of accrued acquisition-related costs at June 30, 2016 and March 31, 2016, respectively, related to purchase price amounts withheld subject to indemnification protections.

NOTE C – TRADE ACCOUNTS RECEIVABLE

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

	June 30, 2016	March 31, 2016

	(in millions)	
Accounts receivable – billed	$390	$ 566
Accounts receivable – unbilled	41	55
Other receivables	8	13
Less: Allowances	(9)	(9)
Trade accounts receivable, net	$430	$ 625

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE D – GOODWILL, CAPITALIZED SOFTWARE AND OTHER INTANGIBLE ASSETS
The gross carrying amounts and accumulated amortization for capitalized software and other intangible assets at June 30, 2016 were as follows:

	At June 30, 2016				
	Gross Amortizable Assets	Less: Fully Amortized Assets	Remaining Amortizable Assets	Accumulated Amortization on Remaining Amortizable Assets	Net Assets
	(in millions)				
Purchased software products	$5,991	$ 4,889	$ 1,102	$ 571	$ 531
Internally developed software products	1,467	1,030	437	335	102
Other intangible assets	927	762	165	73	92
Total capitalized software and other intangible assets	$8,385	$ 6,681	$ 1,704	$ 979	$ 725

The gross carrying amounts and accumulated amortization for capitalized software and other intangible assets at March 31, 2016 were as follows:

	At March 31, 2016				
	Gross Amortizable Assets	Less: Fully Amortized Assets	Remaining Amortizable Assets	Accumulated Amortization on Remaining Amortizable Assets	Net Assets
	(in millions)				
Purchased software products	$5,990	$ 4,865	$ 1,125	$ 552	$ 573
Internally developed software products	1,467	1,009	458	333	125
Other intangible assets	927	728	199	102	97
Total capitalized software and other intangible assets	$8,384	$ 6,602	$ 1,782	$ 987	$ 795

Based on the capitalized software and other intangible assets recorded through June 30, 2016, the projected annual amortization expense for fiscal year 2017 and the next four fiscal years is expected to be as follows:

	Year Ended March 31,				
	2017	2018	2019	2020	2021
	(in millions)				
Purchased software products	$156	$147	$107	$ 82	$ 40
Internally developed software products	79	36	9	1	—
Other intangible assets	16	8	7	6	6
Total	$251	$191	$123	$ 89	$ 46

The Company evaluates the useful lives and recoverability of capitalized software and other intangible assets when events or changes in circumstances indicate that an impairment may exist. These evaluations require complex assumptions about key factors such as future customer demand, technology trends and the impact of those factors on the technology the Company acquires and develops for its products. Impairments or revisions to useful lives could result from the use of alternative assumptions that reflect reasonably possible outcomes related to future customer demand or technology trends for assets within the Enterprise Solutions segment.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Goodwill activity by segment for the three months ended June 30, 2016 was as follows:

(in millions)	Mainframe Solutions	Enterprise Solutions	Services	Total
Balance at March 31, 2016	$ 4,178	$ 1,827	$ 81	$6,086
Foreign currency translation adjustment	—	(2)	—	(2)
Balance at June 30, 2016	$ 4,178	$ 1,825	$ 81	$6,084

NOTE E – DEFERRED REVENUE
The current and noncurrent components of “Deferred revenue (billed or collected)” at June 30, 2016 and March 31, 2016 were as follows:

	June 30, 2016	March 31, 2016
	(in millions)	
Current:		
Subscription and maintenance	$1,826	$ 1,990
Professional services	124	116
Software fees and other	77	91
Total deferred revenue (billed or collected) – current	$2,027	$ 2,197
Noncurrent:		
Subscription and maintenance	$631	$ 712
Professional services	20	21
Software fees and other	3	4
Total deferred revenue (billed or collected) – noncurrent	$654	$ 737
Total deferred revenue (billed or collected)	$2,681	$ 2,934

NOTE F – DERIVATIVES
The Company is exposed to financial market risks arising from changes in interest rates and foreign exchange rates. Changes in interest rates could affect the Company’s monetary assets and liabilities, and foreign exchange rate changes could affect the Company’s foreign currency denominated monetary assets and liabilities and forecasted transactions. The Company enters into derivative contracts with the intent of mitigating a portion of these risks.
Foreign Currency Contracts: The Company enters into foreign currency option and forward contracts to manage foreign currency risks. The Company has not designated its foreign exchange derivatives as hedges. Accordingly, changes in fair value from these contracts are recorded as “Other expenses (gains), net” in the Company’s Condensed Consolidated Statements of Operations.
At June 30, 2016, foreign currency contracts outstanding consisted of purchase and sale contracts with a total gross notional value of approximately $1,052 million and durations of less than nine months. The net fair value of these contracts at June 30, 2016 was a net asset of approximately $4 million, of which approximately $14 million is included in “Other current assets” and approximately $10 million is included in “Accrued expenses and other current liabilities” in the Company’s Condensed Consolidated Balance Sheet.
At March 31, 2016, foreign currency contracts outstanding consisted of purchase and sale contracts with a total gross notional value of approximately $332 million and durations of less than three months. The net fair value of these contracts at March 31, 2016 was a net liability of approximately $1 million, of which approximately $2 million is included in “Other current assets” and approximately $3 million is included in “Accrued expenses and other current liabilities” in the Company’s Condensed Consolidated Balance Sheet.

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

A summary of the effect of the foreign exchange derivatives on the Company's Condensed Consolidated Statements of Operations was as follows:

	Amount of Net (Gain)/Loss Recognized in the Condensed Consolidated Statements of Operations	
	Three Months Ended June 30,	
(in millions)	2016	2015
Other expenses (gains), net – foreign currency contracts	$ 3	$ 11

The Company is subject to collateral security arrangements with most of its major counterparties. These arrangements require the Company or the counterparty to post collateral when the derivative fair values exceed contractually established thresholds. The aggregate fair values of all derivative instruments under these collateralized arrangements were either in a net asset position or under the established threshold at June 30, 2016 and March 31, 2016. The Company posted no collateral at June 30, 2016 or March 31, 2016. Under these agreements, if the Company's credit ratings had been downgraded one rating level, the Company would still not have been required to post collateral.

NOTE G – FAIR VALUE MEASUREMENTS

The following table presents the Company's assets and liabilities that were measured at fair value on a recurring basis at June 30, 2016 and March 31, 2016:

	At June 30, 2016			At March 31, 2016		
	Fair Value Measurement Using Input Types		Estimated Fair Value	Fair Value Measurement Using Input Types		Estimated Fair Value
(in millions)	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Money market funds [1]	$ 530	$ —	$ 530	$ 617	$ —	$ 617
Foreign exchange derivatives [2]	—	14	14	—	2	2
Total assets	$ 530	$ 14	$ 544	$ 617	$ 2	$ 619
Liabilities:						
Foreign exchange derivatives [2]	$ —	$ 10	$ 10	$ —	$ 3	$ 3
Total liabilities	$ —	$ 10	$ 10	$ —	$ 3	$ 3

(1) The Company's investments in money market funds are classified as "Cash and cash equivalents" in its Condensed Consolidated Balance Sheets.
(2) Refer to Note F, "Derivatives" for additional information.

At June 30, 2016 and March 31, 2016, the Company did not have any assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

The carrying values of financial instruments classified as current assets and current liabilities, such as cash and cash equivalents, short-term investments, accounts payable, accrued expenses and short-term borrowings, approximate fair value due to the short-term maturity of the instruments.

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

The following table presents the carrying amounts and estimated fair values of the Company’s other financial instruments that were not measured at fair value on a recurring basis at June 30, 2016 and March 31, 2016:

(in millions)	At June 30, 2016		At March 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Liabilities:				
Total debt (1)	$1,950	$ 2,069	$1,953	$ 2,058
Facility exit reserve (2)	$15	$ 17	$16	$ 17

(1) 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 (Level 2).

(2) Estimated fair value for the facility exit reserve is determined using the Company’s incremental borrowing rate at June 30, 2016 and March 31, 2016. At June 30, 2016 and March 31, 2016, the facility exit reserve included approximately $4 million and $4 million, respectively, in “Accrued expenses and other current liabilities” and approximately $11 million and $12 million, respectively, in “Other noncurrent liabilities” in the Company’s Condensed Consolidated Balance Sheets (Level 3).

NOTE H – COMMITMENTS AND CONTINGENCIES

The Company, various subsidiaries, and certain current and former officers have been or, from time to time, may be named as defendants in various lawsuits and claims arising in the normal course of business. The Company may also become involved with contract issues and disputes with customers, including government customers.

On March 24, 2014, the U.S. Department of Justice (DOJ) filed under seal in the United States District Court for the District of Columbia a complaint against the Company in partial intervention under the qui tam provisions of the civil False Claims Act (FCA). The underlying complaint was filed under seal by an individual plaintiff on August 24, 2009. On May 29, 2014, the case was unsealed. Both the DOJ and the individual plaintiff have filed amended complaints. The current complaints relate to government sales transactions under the Company’s General Services Administration (GSA) schedule contract, entered into in 2002 and extended until present through subsequent amendments. In sum and substance, the current complaints allege that the Company provided inaccurate commercial discounting information to the GSA during contract negotiations and that, as a result, the GSA’s contract discount was lower than it otherwise would have been. In addition, the complaints allege that the Company failed to apply the full negotiated discount in some instances and to pay sufficient rebates pursuant to the contract’s price reduction clause. In addition to FCA claims, the current complaints also assert common law causes of action. The DOJ complaint seeks an unspecified amount of damages, including treble damages and civil penalties. The complaint by the individual plaintiff alleges that the U.S. government has suffered damages in excess of $100 million and seeks an unspecified amount of damages, including treble damages and civil penalties. The Company filed motions to dismiss the current complaints. On March 31, 2015, the court issued decisions denying the Company's motion to dismiss the DOJ complaint, and granting in part and denying in part the Company's motion to dismiss the individual plaintiff's complaint. The discovery phase of the case is proceeding pursuant to the court’s scheduling orders. On October 30, 2014, the GSA Suspension and Debarment Division issued a Show Cause Letter to the Company in response to the complaints summarized above. In sum, the letter called on the Company to demonstrate why the U.S. government should continue to contract with the Company, given the litigation allegations made in these complaints. On December 19, 2014, the Company provided a detailed response to the Show Cause Letter. In July 2015, after the Company agreed to assume certain additional reporting requirements during the pendency of the litigation, the GSA Suspension and Debarment Division advised the Company that it had concluded its review and determined that the Company is a responsible contractor with which government agencies could continue to contract. The Company cannot predict the amount of damages likely to result from the litigation summarized above. Although the timing and ultimate outcome of this litigation cannot be determined, the Company believes that the material aspects of the liability theories set forth in the litigation complaints are unfounded. The Company also believes that it has meritorious defenses and intends to vigorously contest the lawsuit.

Based on the Company's experience, management believes that the damages amounts claimed in a case are not a meaningful indicator of the potential liability. Claims, suits, investigations and proceedings are inherently uncertain and it is not possible to predict the ultimate outcome of cases. The Company believes that it has meritorious defenses in connection with its current lawsuits and material claims and disputes, and intends to vigorously contest each of them.

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In the opinion of the Company's management based upon information currently available to the Company, while the outcome of these lawsuits, claims and disputes is uncertain, the likely results of these lawsuits, claims and disputes are not expected, either individually or in the aggregate, to have a material adverse effect on the Company's financial position, results of operations or cash flows, although the effect could be material to the Company's results of operations or cash flows for any interim reporting period. For some of these matters, the Company is unable to estimate a range of reasonably possible loss due to the stage of the matter and/or other particular circumstances of the matter. For others, a range of reasonably possible loss can be estimated. For those matters for which such a range can be estimated, the Company estimates that, in the aggregate, the range of reasonably possible loss is from zero to $45 million. This is in addition to amounts, if any, that have been accrued for those matters.
The Company is obligated to indemnify its officers and directors under certain circumstances to the fullest extent permitted by Delaware law. As a part of that obligation, the Company may, from time to time, advance certain attorneys' fees and expenses incurred by officers and directors in various lawsuits and investigations, as permitted under Delaware law.

NOTE I – STOCKHOLDERS' EQUITY
Stock Repurchases: On November 13, 2015, the Board approved a stock repurchase program that authorized the Company to acquire up to $750 million of its common stock. During the three months ended June 30, 2016, the Company repurchased approximately 1.6 million shares of its common stock for approximately $50 million. At June 30, 2016, the Company remained authorized to purchase approximately $700 million of its common stock under its current stock repurchase program.
Accumulated Other Comprehensive Loss: Foreign currency translation losses included in "Accumulated other comprehensive loss" in the Company's Condensed Consolidated Balance Sheets at June 30, 2016 and March 31, 2016 were approximately $445 million and $416 million, respectively.
Cash Dividends: The Board declared the following dividends during the three months ended June 30, 2016 and 2015:
Three Months Ended June 30, 2016:
(in millions, except per share amounts)

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
May 4, 2016	$0.255	May 26, 2016	$107	June 14, 2016

Three Months Ended June 30, 2015:
(in millions, except per share amounts)

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
May 5, 2015	$0.25	May 28, 2015	$110	June 16, 2015

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NOTE J – INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE

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 adjusted for the potential dilutive effect of non-participating share-based awards.

The following table presents basic and diluted income from continuing operations per common share information for the three months ended June 30, 2016 and 2015:

	Three Months Ended June 30,	
	2016	2015
	(in millions, except per share amounts)	
Basic income from continuing operations per common share:		
Income from continuing operations	$198	$207
Less: Income from continuing operations allocable to participating securities	(2)	(2)
Income from continuing operations allocable to common shares	$196	$205
Weighted average common shares outstanding	414	436
Basic income from continuing operations per common share	$0.47	$0.47
Diluted income from continuing operations per common share:		
Income from continuing operations	$198	$207
Less: Income from continuing operations allocable to participating securities	(2)	(2)
Income from continuing operations allocable to common shares	$196	$205
Weighted average shares outstanding and common share equivalents:		
Weighted average common shares outstanding	414	436
Weighted average effect of share-based payment awards	1	2
Denominator in calculation of diluted income per share	415	438
Diluted income from continuing operations per common share	$0.47	$0.47

For the three months ended June 30, 2016 and 2015, respectively, approximately 2 million and 1 million shares of Company common stock underlying restricted stock awards and options to purchase common stock were excluded from the calculation because their effect on income per share was anti-dilutive during the respective periods.

Weighted average restricted stock awards of approximately 5 million and 4 million for the three months ended June 30, 2016 and 2015, respectively, were considered participating securities in the calculation of net income allocable to common stockholders.

NOTE K – ACCOUNTING FOR SHARE-BASED COMPENSATION

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

	Three Months Ended June 30,	
	2016	2015
	(in millions)	
Costs of licensing and maintenance	$2	$2
Cost of professional services	1	1
Selling and marketing	10	8
General and administrative	11	7
Product development and enhancements	5	4
Share-based compensation expense before tax	$29	$22
Income tax benefit	(10)	(7)
Net share-based compensation expense	$19	$15

The following table summarizes information about unrecognized share-based compensation costs at June 30, 2016:

	Unrecognized Share-Based Compensation Costs	Weighted Average Period Expected to be Recognized
	(in millions)	(in years)
Stock option awards	$ 7	2.3
Restricted stock units	27	2.3
Restricted stock awards	102	2.3
Performance share units	45	2.9
Total unrecognized share-based compensation costs	$ 181	2.5

There were no capitalized share-based compensation costs for the three months ended June 30, 2016 and 2015.

The value of performance share units (PSUs) is determined using the closing price of the Company's common stock on the last trading day of the quarter until the awards 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 common stock, restricted stock awards (RSAs) or restricted stock units (RSUs) granted may vary based upon the level of achievement of the performance targets and the approval of the Company's Compensation and Human Resources Committee (which may reduce any award for any reason in its discretion).

For the three months ended June 30, 2016 and 2015, the Company issued stock options for approximately 1 million shares and 0.8 million shares, respectively. The weighted average fair values and assumptions used for the options granted were as follows:

	Three Months Ended June 30,	
	2016	2015
Weighted average fair value	$4.40	$4.69
Dividend yield	3.58 %	3.37 %

Expected volatility factor [1]	23	%	23	%
Risk-free interest rate [2]	1.5	%	1.9	%
Expected life (in years) [3]	6.0		6.0	

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

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

(3) The expected life is the number of years the Company estimates that options will be outstanding prior to exercise. The Company's computation of expected life was determined based on the simplified method (the average of the vesting period and option term).

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The table below summarizes the RSAs and RSUs granted under the 1-year PSUs for the Company's fiscal year 2016 and 2015 incentive plan years. The RSAs and RSUs were granted in the first quarter of fiscal years 2017 and 2016, respectively. The RSAs and RSUs vest 34% on the date of grant and 33% on the first and second anniversaries of the grant date.

		RSAs		RSUs	
Incentive Plans for Fiscal Years	Performance Period	Shares (in millions)	Weighted Average Grant Date Fair Value	Shares (in millions)	Weighted Average Grant Date Fair Value
2016	1 year	0.6	$31.53	0.1	$30.53
2015	1 year	0.5	$31.41	0.1	$30.42

The table below summarizes the shares of common stock issued under the 3-year PSUs for the Company's fiscal year 2014 and 2013 incentive plan years in the first quarter of fiscal years 2017 and 2016, respectively.

Incentive Plans for Fiscal Years	Performance Period	Shares of Common Stock (in millions)	Weighted Average Grant Date Fair Value
2014	3 years	0.3	$31.53
2013	3 years	0.1	$31.41

The table below summarizes the RSAs and RSUs granted under the 1-year PSUs for the Company's fiscal year 2016 and 2015 sales retention equity programs. The RSAs and RSUs were granted in the first quarter of fiscal years 2017 and 2016, respectively. The RSAs and RSUs vest on the third anniversary of the grant date.

		RSAs		RSUs	
Incentive Plans for Fiscal Years	Performance Period	Shares (in millions)	Weighted Average Grant Date Fair Value	Shares (in millions)	Weighted Average Grant Date Fair Value
2016	1 year	0.3	$31.53	0.1	$28.52
2015	1 year	0.2	$30.45	0.1	$27.50

The table below summarizes all of the RSAs and RSUs, including grants made pursuant to the long-term incentive plans discussed above, granted during the three months ended June 30, 2016 and 2015:

	Three Months Ended June 30,	
	2016	2015
	(shares in millions)	
RSAs:		
Shares	2.9	2.7
Weighted average grant date fair value (1)	$31.53	$30.65
RSUs:		
Shares	1.0	0.8
Weighted average grant date fair value (2)	$30.10	$28.90

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

(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.

Employee Stock Purchase Plan: The Company maintains the 2012 Employee Stock Purchase Plan (ESPP) for all eligible employees. The ESPP offer period is semi-annual and allows participants to purchase the Company's common stock at 95% of the closing price of the stock on the last day of the offer period. The ESPP is non-compensatory. For the six-month offer period ended June 30, 2016, the Company issued approximately 0.1 million shares under the ESPP at $31.19 per share. As of June 30, 2016, approximately 29.1 million shares are available for future issuances under the ESPP.

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NOTE L – INCOME TAXES
Income tax expense for the three months ended June 30, 2016 and 2015 was approximately $79 million and $88 million, respectively.
The Company's estimated annual effective tax rate, which excludes the impact of discrete items, for the three months ended June 30, 2016 and 2015 was 29.2% and 29.8%, respectively. Changes in tax laws, the outcome of tax audits and any other changes in potential tax liabilities may result in additional tax expense or benefit in fiscal year 2017, which are not considered in the Company's estimated annual effective tax rate. While the Company does not currently view any such items as individually material to the results of the Company's consolidated financial position or results of operations, the impact of certain items may yield additional tax expense or benefit in the remaining quarters of fiscal year 2017 and the Company is anticipating a fiscal year 2017 effective tax rate between 28% and 29%.

NOTE M – SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION
For the three months ended June 30, 2016 and 2015, interest payments were approximately $23 million and $21 million, respectively, and income taxes paid, net from continuing operations were approximately $62 million and $17 million, respectively. For the three months ended June 30, 2016 and 2015, the excess tax benefits from share-based incentive awards included in financing activities from continuing operations were approximately $3 million and $3 million, respectively.
Non-cash financing activities for the three months ended June 30, 2016 and 2015 consisted of treasury common shares issued in connection with the following: share-based incentive awards issued under the Company's equity compensation plans of approximately $42 million (net of approximately $31 million of income taxes withheld) and $41 million (net of approximately $27 million of income taxes withheld), respectively; discretionary stock contributions to the CA, Inc. Savings Harvest Plan of approximately $24 million and $24 million, respectively; and treasury common shares issued in connection with the Company's Employee Stock Purchase Plan of approximately $2 million and $2 million, respectively.
The Company uses a notional pooling arrangement with an international bank to help manage global liquidity. Under this pooling arrangement, the Company and its participating subsidiaries may maintain either cash deposit or borrowing positions through local currency accounts with the bank, so long as the aggregate position of the global pool is a notionally calculated net cash deposit. Because it maintains a security interest in the cash deposits and has the right to offset the cash deposits against the borrowings, the bank provides the Company and its participating subsidiaries favorable interest terms on both. The activity under this notional pooling arrangement for the three months ended June 30, 2016 and 2015 was as follows:

	Three Months Ended June 30,	
	2016	2015
	(in millions)	
Total borrowings outstanding at beginning of period [1]	$139	$138
Borrowings	190	1,760
Repayments	(186)	(1,776)
Foreign exchange effect	(5)	17
Total borrowings outstanding at end of period [1]	$138	$139

(1) Included in "Accrued expenses and other current liabilities" in the Company's Condensed Consolidated Balance Sheets.

NOTE N – SEGMENT INFORMATION

The Company's Mainframe Solutions and Enterprise Solutions segments comprise its software business organized by the nature of the Company's software offerings and the platform on which the products operate. The Services segment comprises product implementation, consulting, customer education and customer training, including those directly related to the Mainframe Solutions and Enterprise Solutions software that the Company sells to its customers. Segment expenses do not include share-based compensation expense; amortization of purchased software; amortization of other intangible assets; amortization of internally developed software products; certain foreign exchange derivative hedging gains and losses; approved severance and facility actions by the Board; and other miscellaneous costs. A measure of segment assets is not currently provided to the Company's Chief Executive Officer and has therefore not been disclosed.

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The Company's segment information for the three months ended June 30, 2016 and 2015 was as follows:

Three Months Ended June 30, 2016 (dollars in millions)	Mainframe Solutions	Enterprise Solutions	Services	Total
Revenue	$ 551	$ 371	$ 77	$999
Expenses	208	324	75	607
Segment profit	$ 343	$ 47	$ 2	$392
Segment operating margin	62 %	13 %	3 %	39 %
Depreciation	$ 9	$ 6	$ —	$15

Reconciliation of segment profit to income from continuing operations before income taxes for the three months ended June 30, 2016:

(in millions)	
Segment profit	$392
Less:	
Purchased software amortization	43
Other intangibles amortization	5
Internally developed software products amortization	23
Share-based compensation expense	29
Other expenses, net (1)	—
Interest expense, net	15
Income from continuing operations before income taxes	$277

(1) Other expenses, net consists of costs associated with certain foreign exchange derivative hedging gains and losses, and other miscellaneous costs.

Three Months Ended June 30, 2015 (dollars in millions)	Mainframe Solutions	Enterprise Solutions	Services	Total
Revenue	$ 560	$ 338	$ 79	$977
Expenses	211	290	71	572
Segment profit	$ 349	$ 48	$ 8	$405
Segment operating margin	62 %	14 %	10 %	41 %
Depreciation	$ 9	$ 7	$ —	$16

Reconciliation of segment profit to income from continuing operations before income taxes for the three months ended June 30, 2015:

(in millions)	
Segment profit	$405
Less:	
Purchased software amortization	28
Other intangibles amortization	11
Internally developed software products amortization	32
Share-based compensation expense	22
Other expenses, net (1)	8
Interest expense, net	9
Income from continuing operations before income taxes	$295

(1) Other expenses, net consists of costs associated with certain foreign exchange derivative hedging gains and losses, and other miscellaneous costs.

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The table below summarizes the Company's revenue from the United States and from international (i.e., non-U.S.) locations:

	Three Months Ended June 30,	
	2016	2015
	(in millions)	
United States	$637	$619
EMEA [(1)]	225	221
Other	137	137
Total revenue	$999	$977

(1) Consists of Europe, the Middle East and Africa.

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Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (Form 10-Q) contains certain forward-looking information relating to CA, Inc. (which we refer to as the "Company," "Registrant," "CA Technologies," "CA," "we," "our" or "us"), that is based on the belie and assumptions made by, our management as well as information currently available to management. When used in this Form 10-Q, the words "believes," "plans," "anticipates," "expects," "estimates," "targets" and similar expressions relating the future are intended to identify forward-looking information. Forward-looking information includes, for example, not only the statements relating to the future made in this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), but also statements relating to the future that appear in other parts of this Form 10-Q. This forward-looking information reflects our current views with respect to future events and is subject to certain risks, uncertainties and assumptions.

The declaration and payment of future dividends by the Company is subject to the determination of the Company's Board of Directors (the Board), in its sole discretion, after considering various factors, including the Company's financial condition, historical and forecasted operating results, and available cash flow, as well as any applicable laws and contractual covenants and any other relevant factors. The Company's practice regarding payment of dividends may be modified at any time and from time to time.

Repurchases under the Company's stock repurchase program may be made from time to time, subject to market conditions and other factors, in the open market, through solicited or unsolicited privately negotiated transactions or otherwise. The program does not obligate the Company to acquire any particular amount of common stock, and it may be modified or suspended at any time at the Company's discretion.

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A number of important factors could cause actual results or events to differ materially from those indicated by such forward-looking statements, including: the ability to achieve success in the Company's business strategy by, among other things, ensuring that any new offerings address the needs of a rapidly changing market while not adversely affecting the demand for the Company's traditional products or the Company's profitability to an extent greater than anticipated, enabling the Company's sales force to accelerate growth of sales to new customers and expand sales with existing customers, including sales outside of the Company's renewal cycle and to a broadening set of purchasers outside of traditional information technology operations (with such growth and expansion at levels sufficient to offset any decline in revenue and/or sales in the Company's Mainframe Solutions segment and in certain mature product lines in the Company's Enterprise Solutions segment), effectively managing the strategic shift in the Company's business model to develop more easily installed software, provide additional SaaS offerings and refocus the Company's professional services and education engagements on those engagements that are connected to new product sales, without affecting the Company's financial performance to an extent greater than anticipated, and effectively managing the Company's pricing and other go-to-market strategies, as well as improving the Company's brand, technology and innovation awareness in the marketplace; the failure to innovate or adapt to technological changes and introduce new software products and services in a timely manner; competition in product and service offerings and pricing; the ability of the Company's products to remain compatible with ever-changing operating environments, platforms or third party products; global economic factors or political events beyond the Company's control and other business and legal risks associated with non-U.S. operations; the failure to expand partner programs and sales of the Company's solutions by the Company's partners; the ability to retain and attract qualified professionals; general economic conditions and credit constraints, or unfavorable economic conditions in a particular region, business or industry sector; the ability to successfully integrate acquired companies and products into the Company's existing business; risks associated with sales to government customers; breaches of the Company's data center, network, as well as the Company's software products, and the IT environments of the Company's vendors and customers; the ability to adequately manage, evolve and protect the Company's information systems, infrastructure and processes; the failure to renew license transactions on a satisfactory basis; fluctuations in foreign exchange rates; discovery of errors or omissions in the Company's software products or documentation and potential product liability claims; the failure to protect the Company's intellectual property rights and source code; access to software licensed from third parties; risks associated with the use of software from open source code sources; third-party claims of intellectual property infringement or royalty payments; fluctuations in the number, terms and duration of the Company's license agreements, as well as the timing of orders from customers and channel partners; events or circumstances that would require the Company to record an impairment charge relating to the Company's goodwill or capitalized software and other intangible assets balances; potential tax liabilities; changes in market conditions or the Company's credit ratings; changes in generally accepted accounting principles; the failure to effectively execute the Company's workforce reductions, workforce rebalancing and facilities consolidations; successful and secure outsourcing of various functions to third parties; and other factors described more fully in this Form 10-Q and the Company's other filings with the Securities and Exchange Commission. Should one or more of these risks or uncertainties occur, or should our assumptions prove incorrect, actual results may vary materially from the forward-looking information described in this Form 10-Q as believed, planned, anticipated, expected, estimated, targeted or similarly identified. We do not intend to update these forward-looking statements, except as otherwise required by law. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. This MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes to the financial statements. References in this Form 10-Q to fiscal 2017 and fiscal 2016 are to our fiscal years ending on March 31, 2017 and 2016, respectively.

OVERVIEW

CA Technologies is a global leader in software solutions enabling customers to plan, develop, manage and secure applications and enterprise environments across distributed, cloud, mobile and mainframe platforms. Most of the Global Fortune 500, as well as many government agencies around the world, rely on CA to help manage their increasingly dynamic and complex environments.

We have a broad portfolio of software solutions that we use to execute our business strategy, including enabling our customers to gain a competitive advantage in the Application Economy. We organize our offerings in Enterprise Solutions, Mainframe Solutions and Services operating segments.

Enterprise Solutions segment includes products that are designed for distributed and cloud computing environments and run on industry standard servers. Within Enterprise Solutions, our areas of focus include:

- Agile Management enables customers to more effectively plan and manage the software development process and the business of IT service delivery. Our solutions enable customers to improve delivery time on large projects, reduce costs and optimize resources.
- DevOps is adjacent to Agile Management and comprises a range of solutions that allow customers to efficiently deliver and manage applications and IT infrastructure. With our portfolio of solutions, customers can reduce the delivery time of new applications, increase the frequency of new releases and dramatically improve quality.

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- Security includes a comprehensive set of solutions to address the growing concern across all enterprises and organizations regarding external and internal threats to their environments and the critical data they contain. Our identity-centric security portfolio allows customers to manage identities and regulate access from the device to the data center, providing a complete, end-to-end, and multi-channel security solution.

Mainframe Solutions are designed for the IBM z Systems™ mainframe platform, which runs many of our largest customers' mission-critical business applications, with a focus on lowering cost per transaction, while increasing business agility, security and compliance. Within Mainframe Solutions, our areas of focus include:

- Application Development solutions help enable agile development processes, modernize applications and enable collaboration across the mobile to mainframe teams.
- Databases and Database Management solutions help customers manage the growth and increasing complexity of data and allow them to address their ever-evolving data management needs and enable web and mobile access of data.
- Security & Compliance solutions manage risk and ensure regulatory compliance across the enterprise with modern tools. Our solutions reduce risk from unauthorized access, secure mainframe assets, monitor instances that affect compliance and discover sensitive data. Our solutions secure data at rest and in motion, across the enterprise.
- Systems and Operations Management portfolio provides customers with a unified view of their z Systems performance, including their applications, middleware, networks, systems, storage and data.

Services helps customers reach their IT and business goals primarily by enabling the rapid implementation and adoption of our Mainframe and Enterprise solutions. Our professional services team consists of experienced professionals who provide a variety of services, such as consulting, implementation, application management services, education and support services, to both commercial and government customers. In fiscal 2016, as a result of our Rally acquisition, Agile coaches, whose primary focus is training customers on the implementation of the Agile software development methodology, were incorporated into the Services segment.

Our goal is to be the world’s leading independent software provider for IT management and security solutions that help organizations and enterprises plan, develop, manage, and secure modern software environments, across mainframe, distributed, cloud and mobile platforms. To accomplish this, key elements of our strategy include:

- Drive organic innovation. Our product development strategy is built around key growth areas, where we are focused on innovating and delivering differentiated products and solutions across both distributed and mainframe. A key element of our organic innovation approach is the broad adoption of the Agile methodology to govern our software development process, which we believe will improve our product development time-to-market, quality and relevance, and support our customer success initiatives.
- Incubate technology for next generation products. We are researching and dedicating resources to the development of emerging technologies that are logical extensions of our core areas of focus. We are working on opportunities in areas such as containers, data analytics, big data and open source, some of which may become enhancements or extensions of our current product portfolio and others may evolve to new product categories.
- Pursue new business models and expanded routes to market. While our traditional on-premise software delivery remains core to many enterprise customers, we see cloud-based and try-and-buy models as increasingly attractive for our customers.
- Expand relationships with our global customer base and address opportunities with new and underserved customers. We are focused on maintaining and expanding the strong relationships with our established customer base, and will proactively target growth with other potential customers that we do not currently serve. In parallel, we are seeking to broaden our customer base to new buyers in geographic regions we have underserved. The emerging roles of Chief Information Security Officers and Chief Development Officers align with the shifts we are driving across our portfolio to meet the needs of speed and agility.
- Execute strategic and disciplined technology acquisitions. We intend to supplement our organic innovation efforts with key technology acquisitions that are within or adjacent to our core areas of focus. We conduct a thorough acquisition process, which includes build vs. buy analysis and opportunity identification, detailed business case modeling, rigorous due diligence and extensive integration, to fully realize the value of our acquisitions.

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We offer our solutions through our direct sales force and indirectly through our partners. We remain focused on strengthening relationships with our core customers and partners - approximately our top 500 accounts, which we refer to as our "Platinum" accounts - through product leadership, account management and a differentiated customer experience. We are working to accelerate the velocity of our sales transactions by dedicating sales resources and deploying additional solutions to address opportunities to sell to new enterprises and to expand our relationship with existing non-Platinum customers - which we refer to as our "Named" and "Growth/Partners" (or Partner-led) customers. Named customers are large potential customers with whom we currently do not have a strong presence and where a competitor often has an established relationship. Growth/Partners customers are mid-size potential customers with whom we currently do not have a strong presence and generally address through partners. Additionally, we have implemented broad-based business initiatives to drive continued improvement in sales execution. We are continuing to shift to a more product-driven sales approach, using real-time data and intelligence to drive on-going evolution of our go-to-market strategy towards the highest potential and highest-yielding markets.

We have sharpened our focus and processes to better reach new customers to drive higher velocity and a broadening customer mix. Our marketing and sales organizations are utilizing common systems and analytics to initiate and respond to market opportunities, optimize resources, maximize efficiency and drive awareness and consideration of the CA brand and portfolio capabilities across our broad base of customers and prospects.

EXECUTIVE SUMMARY

A summary of key results for the first quarter of fiscal 2017 compared with the first quarter of fiscal 2016 is as follows:

Revenue

- Total revenue increased $22 million primarily as a result of an increase in software fees and other revenue, partially offset by a decrease in subscription and maintenance revenue. For the first quarter of fiscal 2017, total revenue includes revenue of $35 million from our fiscal 2016 acquisitions of Rally Software Development Corp. (Rally) and Xceedium, Inc. (Xceedium), primarily reflected within software fees and other revenue.
- We expect revenue for fiscal 2017 to be consistent or increase slightly compared with fiscal 2016.

Bookings

- Total bookings increased by more than 100% primarily due to the replacement and extension of a large system integrator transaction that was scheduled to expire in fiscal 2018, as well as an increase in other mainframe solutions renewals that were not associated with this transaction. The large system integrator transaction provides an incremental contract value in excess of $475 million and extends the term of the replaced agreement for an additional five years.
- Renewal bookings increased by more than 130%, of which the aforementioned large system integrator transaction contributed a percentage in the mid-90s.
- Total new product sales increased by a percentage in the low-50s, of which the aforementioned large system integrator transaction contributed a percentage in the high-40s.
- Mainframe solutions new product sales increased by more than 150%, of which the aforementioned large system integrator transaction contributed slightly above 100%.
- Enterprise solutions new product sales increased by a percentage in the low-20s, of which the aforementioned large system integrator transaction contributed a percentage in the high-20s.
- We expect fiscal 2017 renewals to increase by a percentage in the high teens primarily due to the aforementioned large system integrator transaction.

Expenses

- Operating expenses increased primarily due to operational costs associated with our Rally and Xceedium acquisitions that occurred in the second quarter of fiscal 2016.

Income taxes

- We anticipate a fiscal 2017 effective tax rate between 28% and 29%.

Diluted income per common share from continuing operations

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Diluted income per common share from continuing operations was $0.47, which was consistent compared with the year-ago period as a result of an increase in expenses, primarily due to operational costs associated with our Rally and Xceedium acquisitions, offset by an increase in revenue and a decrease in weighted average common shares outstanding.

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Segment results

- Mainframe Solutions revenue decreased primarily due to insufficient revenue from prior period new sales to offset the decline in revenue contribution from renewals. Mainframe Solutions operating margin was consistent compared with the year-ago period.
- Enterprise Solutions revenue increased primarily due to the additional revenue associated with our Rally and Xceedium acquisitions. Enterprise Solutions operating margin was generally consistent compared with the year-ago period.
- Services revenue decreased primarily due a decline in professional services engagements from prior periods. Operating margin for Services declined as a result of a decrease in revenue and an increase in personnel-related costs associated with our Rally acquisition.

Cash flows from continuing operations

- Net cash provided by operating activities from continuing operations was $161 million, representing a decrease of $27 million. Net cash provided by operating activities decreased compared with the year-ago period primarily due to the increase in income tax payments of $45 million, partially offset by the decrease in vendor disbursements and payroll of $19 million.

PERFORMANCE INDICATORS

Management uses several quantitative performance indicators to assess our financial results and condition. Following is a summary of the principal quantitative performance indicators that management uses to review performance:

	First Quarter Comparison Fiscal			
	2017	2016	Change	Percentage Change
	(dollars in millions)			
Total revenue	$999	$977	$ 22	2 %
Income from continuing operations	$198	$207	$ (9)	(4)%
Net cash provided by operating activities - continuing operations	$161	$188	$ (27)	(14)%
Total bookings	$1,353	$662	$ 691	104 %
Subscription and maintenance bookings	$1,173	$525	$ 648	123 %
Weighted average subscription and maintenance license agreement duration in years	4.93	3.45	1.48	43 %

	June 30, 2016	March 31, 2016	Change From Year End	June 30, 2015	Change From Prior Year Quarter
	(in millions)				
Cash and cash equivalents	$2,776	$2,812	$ (36)	$2,816	$ (40)
Total debt [(1)]	$1,950	$1,953	$ (3)	$1,252	$ 698
Total expected future cash collections from committed contracts [(2)]	$4,900	$4,520	$ 380	$3,950	$ 950
Total revenue backlog [(2)]	$7,151	$6,829	$ 322	$6,278	