

CA, INC.
Form 10-Q
October 27, 2011

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

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from _____ to _____

Commission File Number 1-9247

CA, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-2857434

(I.R.S. Employer Identification Number)

One CA Plaza

Islandia, New York

(Address of principal executive offices)

11749

(Zip Code)

1-800-225-5224

(Registrant's telephone number, including area code)

Not applicable

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

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

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

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

(Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting
company

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

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

Title of Class
Common Stock
par value \$0.10 per share

Shares Outstanding
as of October 20, 2011
493,391,769

**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 September 30, 2011, the related condensed consolidated statements of operations for the three-month and six-month periods ended September 30, 2011 and 2010, and the related condensed consolidated statements of cash flows for the six-month periods ended September 30, 2011 and 2010. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

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

/s/ KPMG LLP

New York, New York

October 27, 2011

Table of Contents**Item 1.**

CA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share amounts)

	September 30, 2011 (unaudited)	March 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,203	\$ 3,049
Marketable securities current	89	75
Trade accounts receivable, net	601	849
Deferred income taxes current	132	246
Other current assets	189	152
TOTAL CURRENT ASSETS	3,214	4,371
Marketable securities noncurrent	90	104
Property and equipment, net of accumulated depreciation of \$671 and \$632, respectively	398	437
Goodwill	5,885	5,688
Capitalized software and other intangible assets, net	1,407	1,284
Deferred income taxes noncurrent	197	284
Other noncurrent assets, net	271	246
TOTAL ASSETS	\$ 11,462	\$ 12,414
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt and loans payable	\$ 18	\$ 269
Accounts payable	95	100
Accrued salaries, wages and commissions	272	293
Accrued expenses and other current liabilities	377	395
Deferred revenue (billed or collected) current	2,175	2,600
Taxes payable, other than income taxes payable current	44	75
Federal, state and foreign income taxes payable current		124
Deferred income taxes current	64	68
TOTAL CURRENT LIABILITIES	3,045	3,924
Long-term debt, net of current portion	1,292	1,282
Federal, state and foreign income taxes payable noncurrent	407	414
Deferred income taxes noncurrent	63	64
Deferred revenue (billed or collected) noncurrent	863	969
Other noncurrent liabilities	125	141
TOTAL LIABILITIES	5,795	6,794
STOCKHOLDERS EQUITY		

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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; 489,413,910 and 502,299,607 shares outstanding, respectively	59	59
Additional paid-in capital	3,575	3,615
Retained earnings	4,532	4,106
Accumulated other comprehensive loss	(133)	(65)
Treasury stock, at cost, 100,281,171 shares and 87,395,474 shares, respectively	(2,366)	(2,095)
TOTAL STOCKHOLDERS EQUITY	5,667	5,620
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 11,462	\$ 12,414

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 September 30,		For the Six Months Ended September 30,	
	2011	2010	2011	2010
REVENUE				
Subscription and maintenance revenue	\$ 1,022	\$ 939	\$ 2,029	\$ 1,878
Professional services	96	79	186	157
Software fees and other	82	70	148	122
TOTAL REVENUE	1,200	1,088	2,363	2,157
EXPENSES				
Costs of licensing and maintenance	71	66	138	133
Cost of professional services	91	75	179	146
Amortization of capitalized software costs	55	47	105	92
Selling and marketing	370	300	696	590
General and administrative	104	113	218	230
Product development and enhancements	140	125	258	253
Depreciation and amortization of other intangible assets	43	45	90	89
Other (gains) expenses, net	(7)	15	4	1
TOTAL EXPENSES BEFORE INTEREST AND INCOME TAXES	867	786	1,688	1,534
Income from continuing operations before interest and income taxes	333	302	675	623
Interest expense, net	6	12	15	25
Income from continuing operations before income taxes	327	290	660	598
Income tax expense	91	71	196	158
INCOME FROM CONTINUING OPERATIONS	236	219	464	440
Income (loss) from discontinued operations, net of income taxes		3	13	(1)
NET INCOME	\$ 236	\$ 222	\$ 477	\$ 439

BASIC INCOME PER SHARE

Income from continuing operations	\$ 0.47	\$ 0.43	\$ 0.92	\$ 0.85
Income from discontinued operations			.03	
Net income	\$ 0.47	\$ 0.43	\$ 0.95	\$ 0.85
Basic weighted average shares used in computation	493	507	497	508

DILUTED INCOME PER SHARE

Income from continuing operations	\$ 0.47	\$ 0.43	\$ 0.92	\$ 0.85
Income from discontinued operations			.03	
Net income	\$ 0.47	\$ 0.43	\$ 0.95	\$ 0.85
Diluted weighted average shares used in computation	494	508	498	509

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 Six Months Ended September 30,	
	2011	2010
OPERATING ACTIVITIES FROM CONTINUING OPERATIONS:		
Net income	\$ 477	\$ 439
(Income) loss from discontinued operations	(13)	1
Income from continuing operations	464	440
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	195	181
Provision for deferred income taxes	123	187
Provision for bad debts		5
Share-based compensation expense	41	40
Asset impairments and other non-cash items	9	(1)
Foreign currency transaction gains	(1)	
Changes in other operating assets and liabilities, net of effect of acquisitions:		
Decrease in trade and current installment accounts receivable, net	255	273
Decrease in deferred revenue	(483)	(513)
Decrease in taxes payable, net	(215)	(224)
Increase (decrease) in accounts payable, accrued expenses and other	10	(2)
Decrease in accrued salaries, wages and commissions	(21)	(109)
Changes in other operating assets and liabilities	(44)	(26)
NET CASH PROVIDED BY OPERATING ACTIVITIES CONTINUING OPERATIONS	333	251
INVESTING ACTIVITIES FROM CONTINUING OPERATIONS:		
Acquisitions of businesses, net of cash acquired, and purchased software	(369)	(28)
Purchases of property and equipment	(40)	(47)
Cash proceeds from divestiture of assets	7	10
Capitalized software development costs	(96)	(73)
Purchases of marketable securities	(71)	
Proceeds from the sale of marketable securities	27	
Maturities of marketable securities	43	
Other investing activities	(1)	(16)
NET CASH USED IN INVESTING ACTIVITIES CONTINUING OPERATIONS	(500)	(154)
FINANCING ACTIVITIES FROM CONTINUING OPERATIONS:		
Dividends paid	(50)	(41)
Purchases of common stock	(353)	(155)
Debt borrowings	164	
Debt repayments	(353)	(7)
Exercise of common stock options and other	11	4

NET CASH USED IN FINANCING ACTIVITIES	CONTINUING OPERATIONS	(581)	(199)
Effect of exchange rate changes on cash		(85)	32
NET CHANGE IN CASH AND CASH EQUIVALENTS	CONTINUING OPERATIONS	(833)	(70)
CASH USED IN OPERATING ACTIVITIES	DISCONTINUED OPERATIONS	(17)	(4)
CASH PROVIDED BY INVESTING ACTIVITIES	DISCONTINUED OPERATIONS	4	16
NET EFFECT OF DISCONTINUED OPERATIONS ON CASH AND CASH EQUIVALENTS		(13)	12
DECREASE IN CASH AND CASH EQUIVALENTS		(846)	(58)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		3,049	2,583
CASH AND CASH EQUIVALENTS AT END OF PERIOD		\$ 2,203	\$ 2,525

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

NOTE A ACCOUNTING POLICIES

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

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

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

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

Divestitures: In June 2011, the Company sold its Internet Security business and in June 2010, the Company sold its Information Governance business. The results of operations for these businesses, and the related gain (loss) on disposal have been presented as discontinued operations in the accompanying Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows. The effects of the discontinued components were immaterial to the Company's Condensed Consolidated Balance Sheet at March 31, 2011. See Note C, *Divestitures*, 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 (gains) expenses, net* in the Company's Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2010.

Cash and Cash Equivalents: The Company's cash and cash equivalents are held in numerous locations throughout the world, with approximately 66% being held by the Company's foreign subsidiaries outside the United States at September 30, 2011.

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

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

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

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

See Note K, *Fair Value Measurements*, for additional information.

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

billed in future periods.

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CA, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

(unaudited)

Statements of Cash Flows: For the six months ended September 30, 2011 and 2010, interest payments, net were approximately \$30 million and \$42 million, respectively, and income taxes paid were approximately \$221 million and \$134 million, respectively.

The Company uses a notional pooling arrangement with an international bank to help manage global liquidity requirements. Under this pooling arrangement, the Company and its participating subsidiaries may maintain either cash deposit or borrowing positions through local currency accounts with the bank, so long as the aggregate position of the global pool is a notionally calculated net cash deposit. Because the bank maintains a security interest in the cash deposits, and has the right to offset the cash deposits against the borrowings, the bank provides the Company and its participating subsidiaries favorable interest terms on both cash deposits and borrowings. At September 30, 2011 while the overall pool was positive, there was approximately \$61 million of borrowing positions outstanding under this cash pooling arrangement which is included in the Accrued expenses and other current liabilities line item on the Company's Condensed Consolidated Balance Sheet. Borrowings and repayments were approximately \$164 million and \$97 million, respectively, for the six months ended September 30, 2011. At March 31, 2011, there were no borrowings outstanding under the cash pooling arrangement.

Non-cash financing activities for the six months ended September 30, 2011 and 2010 consisted of treasury shares issued in connection with the following: share-based incentive awards granted under the Company's equity compensation plans of approximately \$53 million (net of approximately \$26 million of taxes withheld) and \$63 million (net of approximately \$26 million of taxes withheld), respectively; and discretionary stock contributions to the CA, Inc. Savings Harvest Plan of approximately \$13 million and \$25 million, respectively.

NOTE B ACQUISITIONS

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

In August 2011, the Company acquired 100% of the voting equity interest of Interactive TKO, Inc. (ITKO), a privately held provider of service simulation solutions for developing applications in composite and cloud environments. The acquisition expands solutions the Company offers enterprises and service providers for using and providing cloud computing to deliver business services. The total purchase price of the acquisition was approximately \$317 million.

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

<i>(dollars in millions)</i>	ITKO Acquisition ⁽²⁾	Other Acquisitions	Estimated Useful Life
			3-15
Finite-lived intangible assets ⁽¹⁾	\$ 6	\$ 11	years
Purchased software	148	8	5-7 years
Goodwill	192	20	Indefinite
Deferred tax assets/(liabilities)	(50)	(3)	
Other assets net of other liabilities assumed ⁽³⁾	21	3	

Purchase Price	\$	317	\$	39
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- (1) Includes customer relationships and trade names.
- (2) Purchase price allocation is preliminary due to ongoing analysis to determine the fair value of acquired intangibles and the tax basis of acquired assets and liabilities.
- (3) Includes approximately \$20 million of cash acquired relating to ITKO.

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(unaudited)

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

The Company's acquisitions during the first half of fiscal year 2011 were considered immaterial, both individually and in the aggregate, compared with the results of the Company's operations. Therefore, purchase accounting information and pro forma disclosure are not presented.

During the third quarter of fiscal year 2011, the Company acquired 100% of the voting equity interests of Arcot Systems, Inc. (Arcot), a privately held provider of authentication and fraud prevention solutions through on-premises software or cloud services. The purchase price allocation was finalized in the second quarter of fiscal 2012 and no material adjustments were made to amounts previously reported. The following represents the allocation of the purchase price and estimated useful lives to the acquired net assets of Arcot:

<i>(dollars in millions)</i>	Arcot	Estimated Useful Life
Finite-lived intangible assets ⁽¹⁾	\$ 39	2-5 years
Purchased software	86	10 years
Goodwill	60	Indefinite
Deferred tax assets/(liabilities)	(1)	
Other assets net of other liabilities assumed	13	
 Purchase Price	 \$ 197	

⁽¹⁾ Includes customer relationships and trade names.

The Company had approximately \$44 million and \$77 million of accrued acquisition-related costs at September 30, 2011 and March 31, 2011, respectively, all of which related to purchase price amounts withheld subject to indemnification protections.

NOTE C DIVESTITURES

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

The income (loss) from discontinued components for the sale of the Company