

CA, INC.  
Form 10-Q  
October 23, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended September 30, 2014

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

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

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|                                                                   |                                            |
|-------------------------------------------------------------------|--------------------------------------------|
| Delaware                                                          | 13-2857434                                 |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>Identification Number) |

|                                           |            |
|-------------------------------------------|------------|
| 520 Madison Avenue,<br>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)

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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 <input checked="" type="checkbox"/>                                  | Accelerated filer <input type="checkbox"/>         |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |

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

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

| Title of Class             | Shares Outstanding     |
|----------------------------|------------------------|
| Common Stock               | as of October 16, 2014 |
| par value \$0.10 per share | 444,906,148            |

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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, 2014, and the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended September 30, 2014 and 2013, and the condensed consolidated statements of cash flows for the six-month periods ended September 30, 2014 and 2013. 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, 2014, 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 19, 2014, 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, 2014, 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 23, 2014

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Item 1.

## CA, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share amounts)

|                                                                                                                                                                          | September 30,<br>2014<br>(unaudited) | March 31,<br>2014 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------|
| Assets                                                                                                                                                                   |                                      |                   |
| Current assets:                                                                                                                                                          |                                      |                   |
| Cash and cash equivalents                                                                                                                                                | \$3,193                              | \$3,252           |
| Trade accounts receivable, net                                                                                                                                           | 511                                  | 800               |
| Deferred income taxes                                                                                                                                                    | 328                                  | 315               |
| Other current assets                                                                                                                                                     | 199                                  | 192               |
| Total current assets                                                                                                                                                     | \$4,231                              | \$4,559           |
| Property and equipment, net of accumulated depreciation of \$845 and \$828, respectively                                                                                 | \$278                                | \$295             |
| Goodwill                                                                                                                                                                 | 5,811                                | 5,922             |
| Capitalized software and other intangible assets, net                                                                                                                    | 869                                  | 1,063             |
| Deferred income taxes                                                                                                                                                    | 67                                   | 59                |
| Other noncurrent assets, net                                                                                                                                             | 116                                  | 118               |
| Total assets                                                                                                                                                             | \$11,372                             | \$12,016          |
| Liabilities and stockholders' equity                                                                                                                                     |                                      |                   |
| Current liabilities:                                                                                                                                                     |                                      |                   |
| Current portion of long-term debt                                                                                                                                        | \$510                                | \$514             |
| Accounts payable                                                                                                                                                         | 111                                  | 129               |
| Accrued salaries, wages and commissions                                                                                                                                  | 190                                  | 275               |
| Accrued expenses and other current liabilities                                                                                                                           | 429                                  | 510               |
| Deferred revenue (billed or collected)                                                                                                                                   | 1,957                                | 2,419             |
| Taxes payable, other than income taxes payable                                                                                                                           | 32                                   | 66                |
| Federal, state and foreign income taxes payable                                                                                                                          | 55                                   | —                 |
| Deferred income taxes                                                                                                                                                    | 6                                    | 9                 |
| Total current liabilities                                                                                                                                                | \$3,290                              | \$3,922           |
| Long-term debt, net of current portion                                                                                                                                   | \$1,253                              | \$1,252           |
| Federal, state and foreign income taxes payable                                                                                                                          | 155                                  | 182               |
| Deferred income taxes                                                                                                                                                    | 45                                   | 67                |
| Deferred revenue (billed or collected)                                                                                                                                   | 779                                  | 872               |
| Other noncurrent liabilities                                                                                                                                             | 107                                  | 151               |
| Total liabilities                                                                                                                                                        | \$5,629                              | \$6,446           |
| 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; 440,334,597 and 438,740,478 shares outstanding, respectively | 59                                   | 59                |
| Additional paid-in capital                                                                                                                                               | 3,588                                | 3,610             |
| Retained earnings                                                                                                                                                        | 6,069                                | 5,818             |
| Accumulated other comprehensive loss                                                                                                                                     | (255)                                | (171)             |
| Treasury stock, at cost, 149,360,484 and 150,954,603 shares, respectively                                                                                                | (3,718)                              | (3,746)           |

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|                                                                           |          |          |
|---------------------------------------------------------------------------|----------|----------|
| Total stockholders' equity                                                | \$5,743  | \$5,570  |
| Total liabilities and stockholders' equity                                | \$11,372 | \$12,016 |
| 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<br>Months Ended<br>September 30, |         | For the Six<br>Months Ended<br>September 30, |         |
|--------------------------------------------------------------------|------------------------------------------------|---------|----------------------------------------------|---------|
|                                                                    | 2014                                           | 2013    | 2014                                         | 2013    |
| Revenue:                                                           |                                                |         |                                              |         |
| Subscription and maintenance                                       | \$908                                          | \$922   | \$1,817                                      | \$1,844 |
| Professional services                                              | 91                                             | 97      | 178                                          | 195     |
| Software fees and other                                            | 80                                             | 86      | 153                                          | 161     |
| Total revenue                                                      | \$1,079                                        | \$1,105 | \$2,148                                      | \$2,200 |
| Expenses:                                                          |                                                |         |                                              |         |
| Costs of licensing and maintenance                                 | \$71                                           | \$71    | \$143                                        | \$139   |
| Cost of professional services                                      | 88                                             | 88      | 169                                          | 176     |
| Amortization of capitalized software costs                         | 75                                             | 69      | 142                                          | 135     |
| Selling and marketing                                              | 253                                            | 248     | 499                                          | 517     |
| General and administrative                                         | 87                                             | 91      | 179                                          | 182     |
| Product development and enhancements                               | 150                                            | 142     | 300                                          | 274     |
| Depreciation and amortization of other intangible assets           | 34                                             | 37      | 68                                           | 73      |
| Other expenses, net                                                | 1                                              | 14      | 15                                           | 140     |
| Total expenses before interest and income taxes                    | \$759                                          | \$760   | \$1,515                                      | \$1,636 |
| Income from continuing operations before interest and income taxes | \$320                                          | \$345   | \$633                                        | \$564   |
| Interest expense, net                                              | 12                                             | 13      | 26                                           | 24      |
| Income from continuing operations before income taxes              | \$308                                          | \$332   | \$607                                        | \$540   |
| Income tax expense (benefit)                                       | 73                                             | 101     | 160                                          | (21)    |
| Income from continuing operations                                  | \$235                                          | \$231   | \$447                                        | \$561   |
| Income from discontinued operations, net of income taxes           | \$21                                           | \$9     | \$26                                         | \$14    |
| Net income                                                         | \$256                                          | \$240   | \$473                                        | \$575   |
| Basic income per common share:                                     |                                                |         |                                              |         |
| Income from continuing operations                                  | \$0.53                                         | \$0.51  | \$1.01                                       | \$1.24  |
| Income from discontinued operations                                | 0.05                                           | 0.02    | 0.06                                         | 0.03    |
| Net income                                                         | \$0.58                                         | \$0.53  | \$1.07                                       | \$1.27  |
| Basic weighted average shares used in computation                  | 440                                            | 448     | 440                                          | 449     |
| Diluted income per common share:                                   |                                                |         |                                              |         |
| Income from continuing operations                                  | \$0.53                                         | \$0.51  | \$1.00                                       | \$1.23  |
| Income from discontinued operations                                | 0.05                                           | 0.02    | 0.06                                         | 0.03    |
| Net income                                                         | \$0.58                                         | \$0.53  | \$1.06                                       | \$1.26  |
| Diluted weighted average shares used in computation                | 441                                            | 450     | 441                                          | 450     |

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<br>Months Ended<br>September 30, |        | For the Six<br>Months Ended<br>September 30, |         |
|---------------------------------------------------------------------------|------------------------------------------------|--------|----------------------------------------------|---------|
|                                                                           | 2014                                           | 2013   | 2014                                         | 2013    |
| Net income                                                                | \$256                                          | \$240  | \$473                                        | \$575   |
| Other comprehensive (loss) income:                                        |                                                |        |                                              |         |
| Foreign currency translation adjustments                                  | (94                                            | ) 23   | (84                                          | ) (20   |
| Total other comprehensive (loss) income                                   | \$(94                                          | ) \$23 | \$(84                                        | ) \$(20 |
| Comprehensive income                                                      | \$162                                          | \$263  | \$389                                        | \$555   |
| 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<br>September 30, |         |
|----------------------------------------------------------------------------------------------------------|-------------------------------------------|---------|
|                                                                                                          | 2014                                      | 2013    |
| Operating activities from continuing operations:                                                         |                                           |         |
| Net income                                                                                               | \$473                                     | \$575   |
| Income from discontinued operations                                                                      | (26)                                      | (14)    |
| Income from continuing operations                                                                        | \$447                                     | \$561   |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: |                                           |         |
| Depreciation and amortization                                                                            | 210                                       | 208     |
| Deferred income taxes                                                                                    | (49)                                      | (59)    |
| Provision for bad debts                                                                                  | 1                                         | 5       |
| Share-based compensation expense                                                                         | 42                                        | 40      |
| Asset impairments and other non-cash items                                                               | —                                         | 4       |
| Foreign currency transaction losses                                                                      | 3                                         | 2       |
| Changes in other operating assets and liabilities, net of effect of acquisitions:                        |                                           |         |
| Decrease in trade accounts receivable                                                                    | 263                                       | 259     |
| Decrease in deferred revenue                                                                             | (497)                                     | (580)   |
| Decrease in taxes payable, net                                                                           | (42)                                      | (270)   |
| (Decrease) increase in accounts payable, accrued expenses and other                                      | (22)                                      | 12      |
| Decrease in accrued salaries, wages and commissions                                                      | (79)                                      | (71)    |
| Changes in other operating assets and liabilities                                                        | (45)                                      | (35)    |
| Net cash provided by operating activities - continuing operations                                        | \$232                                     | \$76    |
| Investing activities from continuing operations:                                                         |                                           |         |
| Acquisitions of businesses, net of cash acquired, and purchased software                                 | \$(12)                                    | \$(125) |
| Purchases of property and equipment                                                                      | (34)                                      | (35)    |
| Capitalized software development costs                                                                   | —                                         | (35)    |
| Purchases of short-term investments                                                                      | —                                         | (9)     |
| Maturities of short-term investments                                                                     | —                                         | 184     |
| Net cash used in investing activities - continuing operations                                            | \$(46)                                    | \$(20)  |
| Financing activities from continuing operations:                                                         |                                           |         |
| Dividends paid                                                                                           | \$(222)                                   | \$(228) |
| Purchases of common stock                                                                                | (50)                                      | (200)   |
| Notional pooling borrowings                                                                              | 2,703                                     | 1,609   |
| Notional pooling repayments                                                                              | (2,647)                                   | (1,639) |
| Debt borrowings                                                                                          | —                                         | 498     |
| Debt repayments                                                                                          | (5)                                       | (8)     |
| Debt issuance costs                                                                                      | —                                         | (4)     |
| Exercise of common stock options and other                                                               | 14                                        | 55      |
| Net cash (used in) provided by financing activities - continuing operations                              | \$(207)                                   | \$83    |
| Effect of exchange rate changes on cash                                                                  | \$(185)                                   | \$36    |
| Net change in cash and cash equivalents - continuing operations                                          | \$(206)                                   | \$175   |
| Cash (used in) provided by operating activities - discontinued operations                                | \$(23)                                    | \$22    |
| Cash provided by investing activities - discontinued operations                                          | 170                                       | —       |
| Net effect of discontinued operations on cash and cash equivalents                                       | \$147                                     | \$22    |

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|                                                                           |         |         |
|---------------------------------------------------------------------------|---------|---------|
| (Decrease) increase in cash and cash equivalents                          | \$(59   | ) \$197 |
| Cash and cash equivalents at beginning of period                          | \$3,252 | \$2,593 |
| Cash and cash equivalents at end of period                                | \$3,193 | \$2,790 |
| 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, 2014 (2014 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, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2015.

Divestitures: In the second quarter of fiscal year 2015, the Company sold its CA arcserve data protection solution assets (arcserve). In the fourth quarter of fiscal year 2014, the Company identified its CA ERwin Data Modeling solution assets (ERwin) as available for sale. The results of operations associated with these businesses 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 operations were immaterial to the Company's Condensed Consolidated Balance Sheets at September 30, 2014 and March 31, 2014. See Note B, "Divestitures," for additional information.

Cash and Cash Equivalents: The Company's cash and cash equivalents are held in numerous locations throughout the world, with approximately 63% being held by the Company's foreign subsidiaries outside the United States at September 30, 2014.

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 H, "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. See Note F, "Deferred Revenue," for additional information.

New Accounting Pronouncements: In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606), which 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. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard

is effective for annual and interim periods in fiscal years beginning after December 15, 2016. Early application is not permitted. ASU 2014-09 is effective for the Company in its first quarter of fiscal year 2018 using either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. ASU 2014-09 is expected to have a significant impact on the Company's revenue recognition policies and disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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## CA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE B – DIVESTITURES

In July 2014, the Company sold arcserve for approximately \$170 million and recognized a gain on disposal of approximately \$19 million, including tax expense of approximately \$77 million. The effective tax rate on the disposal was adversely affected by non-deductible goodwill of \$109 million. In the fourth quarter of fiscal year 2014, the Company identified ERwin as available for sale. The divestiture of arcserve and the planned divestiture of ERwin result from an effort to rationalize the Company's product portfolio within the Enterprise Solutions segment. The income from discontinued operations relating to both ERwin and the sale of arcserve for the three and six months ended September 30, 2014 and 2013 consisted of the following:

|                                                                                                                    | Three Months Ended<br>September 30, |      |
|--------------------------------------------------------------------------------------------------------------------|-------------------------------------|------|
| (in millions)                                                                                                      | 2014                                | 2013 |
| Subscription and maintenance                                                                                       | \$10                                | \$23 |
| Software fees and other                                                                                            | 5                                   | 12   |
| Total revenue                                                                                                      | \$15                                | \$35 |
| Income from operations of discontinued components, net of tax expense of \$2 million and \$5 million, respectively | \$2                                 | \$9  |
| Gain on disposal of discontinued component, net of tax                                                             | 19                                  | —    |
| Income from discontinued operations, net of tax                                                                    | \$21                                | \$9  |
|                                                                                                                    | Six Months Ended<br>September 30,   |      |
| (in millions)                                                                                                      | 2014                                | 2013 |
| Subscription and maintenance                                                                                       | \$31                                | \$45 |
| Software fees and other                                                                                            | 15                                  | 23   |
| Total revenue                                                                                                      | \$46                                | \$68 |
| Income from operations of discontinued components, net of tax expense of \$6 million and \$9 million, respectively | \$7                                 | \$14 |
| Gain on disposal of discontinued component, net of tax                                                             | 19                                  | —    |
| Income from discontinued operations, net of tax                                                                    | \$26                                | \$14 |

## NOTE C – SEVERANCE AND EXIT COSTS

Fiscal Year 2014 Rebalancing Plan: In fiscal year 2014, the Company's Board of Directors approved and committed to a rebalancing plan (Fiscal 2014 Plan) to better align its business priorities. This included a termination of approximately 1,900 employees and global facility consolidations. Costs associated with the Fiscal 2014 Plan are presented in "Other expenses, net" in the Company's Condensed Consolidated Statement of Operations. The total amount incurred to date for severance and facility exit costs under the Fiscal 2014 Plan is approximately \$170 million and \$22 million, respectively. The Company expects total costs of the Fiscal 2014 Plan to be approximately \$195 million (including severance costs of approximately \$173 million and global facility exit costs of approximately \$22 million). Severance and facility consolidation actions under the Fiscal 2014 Plan were substantially completed by the end of fiscal year 2014.

Accrued severance and exit costs and changes in the accruals during the six months ended September 30, 2014 and 2013 were as follows:

| (in millions)             | Accrued<br>Balance at<br>March 31, 2014 | Expense | Change in<br>Estimate | Payments | Accretion<br>and Other | Accrued<br>Balance at<br>September 30, 2014 |
|---------------------------|-----------------------------------------|---------|-----------------------|----------|------------------------|---------------------------------------------|
| Severance charges         | \$55                                    | \$21    | \$(1)                 | \$(43)   | \$(2)                  | \$30                                        |
| Facility exit charges     | 29                                      | —       | —                     | (5)      | (1)                    | 23                                          |
| Total accrued liabilities | \$84                                    |         |                       |          |                        | \$53                                        |





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## CA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

| (in millions)             | Accrued<br>Balance at<br>March 31, 2013 | Expense | Change in<br>Estimate | Payments | Accretion<br>and Other | Accrued<br>Balance at<br>September 30, 2013 |
|---------------------------|-----------------------------------------|---------|-----------------------|----------|------------------------|---------------------------------------------|
| Severance charges         | \$16                                    | \$111   | \$(9)                 | \$(69)   | \$3                    | \$52                                        |
| Facility exit charges     | 23                                      | 19      | —                     | (6)      | (3)                    | 33                                          |
| Total accrued liabilities | \$39                                    |         |                       |          |                        | \$85                                        |

Balances at September 30, 2014 and 2013 include facility exit accruals of approximately \$11 million and \$15 million, respectively, for plans and actions prior to fiscal year 2014. Balance at September 30, 2013 included a severance accrual of approximately \$7 million for plans and actions prior to the Fiscal 2014 Plan.

The severance liabilities are included in “Accrued salaries, wages and commissions” in the Condensed Consolidated Balance Sheets. The facility exit liabilities are included in “Accrued expenses and other current liabilities” and “Other noncurrent liabilities” in the Condensed Consolidated Balance Sheets.

Accretion and other includes accretion of the Company’s lease obligations related to facility exits as well as changes in the assumptions related to future sublease income. These costs are included in “General and administrative” expense in the Condensed Consolidated Statements of Operations.

## NOTE D – 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:

|                                | September 30,<br>2014 | March 31,<br>2014 |
|--------------------------------|-----------------------|-------------------|
|                                | (in millions)         |                   |
| Accounts receivable – billed   | \$447                 | \$739             |
| Accounts receivable – unbilled | 69                    | 61                |
| Other receivables              | 13                    | 19                |
| Less: Allowances               | (18)                  | (19)              |
| Trade accounts receivable, net | \$511                 | \$800             |

## NOTE E – GOODWILL, CAPITALIZED SOFTWARE AND OTHER INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization for capitalized software and other intangible assets at September 30, 2014 were as follows:

|                                                           | At September 30, 2014          |                                    |                                    |                                                                      |               |
|-----------------------------------------------------------|--------------------------------|------------------------------------|------------------------------------|----------------------------------------------------------------------|---------------|
|                                                           | Gross<br>Amortizable<br>Assets | Less: Fully<br>Amortized<br>Assets | Remaining<br>Amortizable<br>Assets | Accumulated<br>Amortization<br>on Remaining<br>Amortizable<br>Assets | Net<br>Assets |
|                                                           | (in millions)                  |                                    |                                    |                                                                      |               |
| Purchased software products                               | \$5,698                        | \$4,853                            | \$845                              | \$356                                                                | \$489         |
| Internally developed software products                    | 1,486                          | 794                                | 692                                | 389                                                                  | 303           |
| Other intangible assets                                   | 839                            | 491                                | 348                                | 271                                                                  | 77            |
| Total capitalized software and other<br>intangible assets | \$8,023                        | \$6,138                            | \$1,885                            | \$1,016                                                              | \$869         |



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## CA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The gross carrying amounts and accumulated amortization for capitalized software and other intangible assets at March 31, 2014 were as follows:

|                                                           | At March 31, 2014              |                                    |                                    |                                                                      |               |
|-----------------------------------------------------------|--------------------------------|------------------------------------|------------------------------------|----------------------------------------------------------------------|---------------|
|                                                           | Gross<br>Amortizable<br>Assets | Less: Fully<br>Amortized<br>Assets | Remaining<br>Amortizable<br>Assets | Accumulated<br>Amortization<br>on Remaining<br>Amortizable<br>Assets | Net<br>Assets |
|                                                           | (in millions)                  |                                    |                                    |                                                                      |               |
| Purchased software products                               | \$5,706                        | \$4,849                            | \$857                              | \$309                                                                | \$548         |
| Internally developed software products                    | 1,561                          | 757                                | 804                                | 397                                                                  | 407           |
| Other intangible assets                                   | 846                            | 489                                | 357                                | 249                                                                  | 108           |
| Total capitalized software and other<br>intangible assets | \$8,113                        | \$6,095                            | \$2,018                            | \$955                                                                | \$1,063       |

Based on the capitalized software and other intangible assets recorded through September 30, 2014, the projected annual amortization expense for fiscal year 2015 and the next four fiscal years is expected to be as follows:

|                                        | Year Ended March 31, |       |       |       |      |
|----------------------------------------|----------------------|-------|-------|-------|------|
|                                        | 2015                 | 2016  | 2017  | 2018  | 2019 |
|                                        | (in millions)        |       |       |       |      |
| Purchased software products            | \$114                | \$110 | \$108 | \$104 | \$62 |
| Internally developed software products | 149                  | 109   | 79    | 37    | 10   |
| Other intangible assets                | 58                   | 35    | 8     | 3     | 1    |
| Total                                  | \$321                | \$254 | \$195 | \$144 | \$73 |

In the second quarter of fiscal year 2015, the Company recorded an impairment of \$13 million relating to capitalized software and other intangible assets within the Enterprise Solutions segment. This adjustment is a result of the Company's continued effort to rationalize its product portfolio. The impairment was included in "Amortization of capitalized software costs" in the Condensed Consolidated Statement of Operations for the three and six months ended September 30, 2014. Amortization of capitalized software costs was not included in segment expenses (see Note O, "Segment Information," for additional information).

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.

Goodwill activity by segment for the six months ended September 30, 2014 was as follows:

| (in millions)                           | Mainframe<br>Solutions | Enterprise<br>Solutions | Services | Total   |
|-----------------------------------------|------------------------|-------------------------|----------|---------|
| Balance at March 31, 2014               | \$4,178                | \$1,663                 | \$81     | \$5,922 |
| Divestiture adjustment                  | —                      | (109)                   | ) —      | (109)   |
| Foreign currency translation adjustment | —                      | (2)                     | ) —      | (2)     |
| Balance at September 30, 2014           | \$4,178                | \$1,552                 | \$81     | \$5,811 |

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## CA, INC. AND SUBSIDIARIES

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## NOTE F – DEFERRED REVENUE

The current and noncurrent components of “Deferred revenue (billed or collected)” at September 30, 2014 and March 31, 2014 were as follows:

|                                                           | September 30,<br>2014 | March 31,<br>2014 |
|-----------------------------------------------------------|-----------------------|-------------------|
|                                                           | (in millions)         |                   |
| Current:                                                  |                       |                   |
| Subscription and maintenance                              | \$1,804               | \$2,237           |
| Professional services                                     | 128                   | 149               |
| Software fees and other                                   | 25                    | 33                |
| Total deferred revenue (billed or collected) – current    | \$1,957               | \$2,419           |
| Noncurrent:                                               |                       |                   |
| Subscription and maintenance                              | \$745                 | \$845             |
| Professional services                                     | 31                    | 26                |
| Software fees and other                                   | 3                     | 1                 |
| Total deferred revenue (billed or collected) – noncurrent | \$779                 | \$872             |
| Total deferred revenue (billed or collected)              | \$2,736               | \$3,291           |

## NOTE G – DERIVATIVES

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

Interest Rate Swaps: The Company has interest rate swaps with a total notional value of \$500 million, which swap a total of \$500 million of its 6.125% Senior Notes due December 2014 into floating interest rate debt through December 1, 2014. These swaps are designated as fair value hedges.

At September 30, 2014, the fair value of these derivatives was an asset of approximately \$2 million, which is included in “Other current assets” in the Company’s Condensed Consolidated Balance Sheet.

At March 31, 2014, the fair value of these derivatives was an asset of approximately \$8 million, which is included in “Other current assets” in the Company’s Condensed Consolidated Balance Sheet.

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, net” in the Company’s Condensed Consolidated Statements of Operations.

At September 30, 2014, foreign currency contracts outstanding consisted of purchase and sales contracts with a total gross notional value of approximately \$961 million and durations of less than six months. The net fair value of these contracts at September 30, 2014 was a net asset of approximately \$22 million, of which approximately \$25 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.

At March 31, 2014, foreign currency contracts outstanding consisted of purchase and sales contracts with a total gross notional value of approximately \$250 million and durations of less than three months. The net fair value of these contracts at March 31, 2014 was a net asset of approximately \$1 million, of which approximately \$2 million is included in “Other current assets” and approximately \$1 million is included in “Accrued expenses and other current liabilities” in the Company’s Condensed Consolidated Balance Sheet.

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## CA, INC. AND SUBSIDIARIES

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

| (in millions)                                                               | Amount of Net Gain Recognized in the<br>Condensed Consolidated Statements of Operations |        |                                   |         |
|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|--------|-----------------------------------|---------|
|                                                                             | Three Months Ended<br>September 30,                                                     |        | Six Months Ended<br>September 30, |         |
|                                                                             | 2014                                                                                    | 2013   | 2014                              | 2013    |
| Interest expense, net – interest rate swaps designated as fair value hedges | \$(3 )                                                                                  | \$(3 ) | \$(6 )                            | \$(6 )  |
| Other expenses, net – foreign currency contracts                            | \$(17 )                                                                                 | \$(6 ) | \$(12 )                           | \$(15 ) |

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 in a net asset position at September 30, 2014 and March 31, 2014. The Company posted no collateral at September 30, 2014 or March 31, 2014. 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 H – FAIR VALUE MEASUREMENTS

The following table presents the Company's assets and liabilities that were measured at fair value on a recurring basis at September 30, 2014 and March 31, 2014:

|                                  | At September 30, 2014 |         |           |     | At March 31, 2014 |         |           |     |
|----------------------------------|-----------------------|---------|-----------|-----|-------------------|---------|-----------|-----|
|                                  | Fair Value            |         | Estimated |     | Fair Value        |         | Estimated |     |
|                                  | Measurement Using     |         | Fair      |     | Measurement Using |         | Fair      |     |
|                                  | Input Types           |         | Value     |     | Input Types       |         | Value     |     |
| (in millions)                    | Level 1               | Level 2 | Total     |     | Level 1           | Level 2 | Total     |     |
| Assets:                          |                       |         |           |     |                   |         |           |     |
| Money market funds               | \$1,040               | \$—     | \$1,040   | (1) | \$1,277           | \$—     | \$1,277   | (2) |
| Foreign exchange derivatives (3) | —                     | 25      | 25        |     | —                 | 2       | 2         |     |
| Interest rate derivatives (3)    | —                     | 2       | 2         |     | —                 | 8       | 8         |     |
| Total assets                     | \$1,040               | \$27    | \$1,067   |     | \$1,277           | \$10    | \$1,287   |     |
| Liabilities:                     |                       |         |           |     |                   |         |           |     |
| Foreign exchange derivatives (3) | \$—                   | \$3     | \$3       |     | \$—               | \$1     | \$1       |     |
| Total liabilities                | \$—                   | \$3     | \$3       |     | \$—               | \$1     | \$1       |     |

At September 30, 2014, the Company had approximately \$1,040 million and less than \$1 million of investments in (1) money market funds classified as “Cash and cash equivalents” and “Other noncurrent assets, net” for restricted cash amounts, respectively, in its Condensed Consolidated Balance Sheet.

At March 31, 2014, the Company had approximately \$1,277 million and less than \$1 million of (2) investments in money market funds classified as “Cash and cash equivalents” and “Other noncurrent assets, net” for restricted cash amounts, respectively, in its Condensed Consolidated Balance Sheet.

(3) See Note G, “Derivatives” for additional information. Interest rate derivatives fair value excludes accrued interest. At September 30, 2014 and March 31, 2014, 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 September 30, 2014 and March 31, 2014:

| (in millions)                        | At September 30, 2014 |                      | At March 31, 2014 |                      |
|--------------------------------------|-----------------------|----------------------|-------------------|----------------------|
|                                      | Carrying Value        | Estimated Fair Value | Carrying Value    | Estimated Fair Value |
| Liabilities:                         |                       |                      |                   |                      |
| Total debt <sup>(1)</sup>            | \$1,763               | \$1,859              | \$1,766           | \$1,884              |
| Facility exit reserve <sup>(2)</sup> | \$23                  | \$25                 | \$29              | \$33                 |

Estimated fair value of total debt is based on quoted prices for similar liabilities for which significant inputs are (1) observable except for certain long-term lease obligations, for which fair value approximates carrying value (Level 2).

Estimated fair value for the facility exit reserve is determined using the Company's incremental borrowing rate at September 30, 2014 and March 31, 2014. At September 30, 2014 and March 31, 2014, the facility exit reserve (2) included approximately \$9 million and \$11 million, respectively, in "Accrued expenses and other current liabilities" and approximately \$14 million and \$18 million, respectively, in "Other noncurrent liabilities" in the Company's Condensed Consolidated Balance Sheets (Level 3).

## NOTE I – 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 has filed motions to dismiss the current complaints. Those motions are pending and discussions with the DOJ and GSA are continuing. The Company cannot predict the amount of damages likely to result from this matter. Although the timing and ultimate outcome of this matter cannot be determined, the Company believes that the material aspects of the liability theories set forth in the 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.

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 \$30 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.



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## CA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE J – STOCKHOLDERS’ EQUITY

**Stock Repurchases:** In May 2014, the Company’s Board of Directors approved a stock repurchase program that authorizes the Company to acquire up to \$1 billion of its common stock. During the six months ended September 30, 2014, the Company repurchased approximately 1.7 million shares of its common stock for approximately \$50 million. At September 30, 2014, the Company remained authorized to purchase approximately \$950 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 September 30, 2014 and March 31, 2014 were approximately \$255 million and \$171 million, respectively.

**Cash Dividends:** The Company’s Board of Directors declared the following dividends during the six months ended September 30, 2014 and 2013:

## Six Months Ended September 30, 2014:

(in millions, except per share amounts)

| Declaration Date | Dividend Per Share | Record Date     | Total Amount | Payment Date      |
|------------------|--------------------|-----------------|--------------|-------------------|
| May 15, 2014     | \$0.25             | May 29, 2014    | \$111        | June 17, 2014     |
| July 31, 2014    | \$0.25             | August 21, 2014 | \$111        | September 9, 2014 |

## Six Months Ended September 30, 2013:

(in millions, except per share amounts)

| Declaration Date | Dividend Per Share | Record Date     | Total Amount | Payment Date       |
|------------------|--------------------|-----------------|--------------|--------------------|
| May 9, 2013      | \$0.25             | May 23, 2013    | \$114        | June 11, 2013      |
| August 1, 2013   | \$0.25             | August 22, 2013 | \$114        | September 10, 2013 |

## NOTE K – 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.

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## CA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents basic and diluted income from continuing operations per common share information for the three and six months ended September 30, 2014 and 2013:

|                                                                               | Three Months Ended<br>September 30,<br>2014 |        | Six Months Ended<br>September 30,<br>2014 |        | 2013                                    |
|-------------------------------------------------------------------------------|---------------------------------------------|--------|-------------------------------------------|--------|-----------------------------------------|
|                                                                               |                                             |        |                                           |        | 2013                                    |
|                                                                               |                                             |        |                                           |        | (in millions, except per share amounts) |
| Basic income from continuing operations per common share:                     |                                             |        |                                           |        |                                         |
| Income from continuing operations                                             | \$235                                       | \$231  | \$447                                     | \$561  |                                         |
| Less: Income from continuing operations allocable to participating securities | (2                                          | ) (2   | ) (4                                      | ) (6   | )                                       |
| Income from continuing operations allocable to common shares                  | \$233                                       | \$229  | \$443                                     | \$555  |                                         |
| Weighted average common shares outstanding                                    | 440                                         | 448    | 440                                       | 449    |                                         |
| Basic income from continuing operations per common share                      | \$0.53                                      | \$0.51 | \$1.01                                    | \$1.24 |                                         |
| Diluted income from continuing operations per common share:                   |                                             |        |                                           |        |                                         |
| Income from continuing operations                                             | \$235                                       | \$231  | \$447                                     | \$561  |                                         |
| Less: Income from continuing operations allocable to participating securities | (2                                          | ) (2   | ) (4                                      | ) (6   | )                                       |
| Income from continuing operations allocable to common shares                  | \$233                                       | \$229  | \$443                                     | \$555  |                                         |
| Weighted average shares outstanding and common share equivalents:             |                                             |        |                                           |        |                                         |
| Weighted average common shares outstanding                                    | 440                                         | 448    | 440                                       | 449    |                                         |
| Weighted average effect of share-based payment awards                         | 1                                           | 2      | 1                                         | 1      |                                         |
| Denominator in calculation of diluted income per share                        | 441                                         | 450    | 441                                       | 450    |                                         |
| Diluted income from continuing operations per common share                    | \$0.53                                      | \$0.51 | \$1.00                                    | \$1.23 |                                         |

For the three months ended September 30, 2014 and 2013, respectively, approximately 2 million and 2 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 5 million for the three months ended September 30, 2014 and 2013, respectively, were considered participating securities in the calculation of net income allocable to common stockholders.

For the six months ended September 30, 2014 and 2013, respectively, approximately 2 million and 2 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 4 million and 5 million for the six months ended September 30, 2014 and 2013, respectively, were considered participating securities in the calculation of net income allocable to common stockholders.

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## CA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE L – 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<br>September 30, |      | Six Months Ended<br>September 30, |       |
|---------------------------------------------|-------------------------------------|------|-----------------------------------|-------|
|                                             | 2014                                | 2013 | 2014                              | 2013  |
|                                             | (in millions)                       |      |                                   |       |
| Costs of licensing and maintenance          | \$1                                 | \$1  | \$2                               | \$2   |
| Cost of professional services               | 1                                   | 1    | 2                                 | 2     |
| Selling and marketing                       | 8                                   | 7    | 15                                | 14    |
| General and administrative                  | 7                                   | 6    | 13                                | 12    |
| Product development and enhancements        | 5                                   | 5    | 10                                | 10    |
| Share-based compensation expense before tax | \$22                                | \$20 | \$42                              | \$40  |
| Income tax benefit                          | (7                                  | ) (6 | ) (13                             | ) (13 |
| Net share-based compensation expense        | \$15                                | \$14 | \$29                              | \$27  |

The following table summarizes information about unrecognized share-based compensation costs at September 30, 2014:

|                                                   | Unrecognized<br>Share-Based<br>Compensation<br>Costs<br>(in millions) | Weighted<br>Average Period<br>Expected to be<br>Recognized<br>(in years) |
|---------------------------------------------------|-----------------------------------------------------------------------|--------------------------------------------------------------------------|
| Stock option awards                               | \$7                                                                   | 2.0                                                                      |
| Restricted stock units                            | 23                                                                    | 2.2                                                                      |
| Restricted stock awards                           | 81                                                                    | 2.2                                                                      |
| Performance share units                           | 29                                                                    | 2.8                                                                      |
| Total unrecognized share-based compensation costs | \$140                                                                 | 2.3                                                                      |

There were no capitalized share-based compensation costs for the three and six months ended September 30, 2014 and 2013.

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

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## CA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2014 and 2013, the Company issued stock options for approximately 0.6 million shares and 1.6 million shares, respectively. The weighted average fair values and assumptions used for the options granted were as follows:

|                                           | Six Months Ended<br>September 30, |        |   |
|-------------------------------------------|-----------------------------------|--------|---|
|                                           | 2014                              | 2013   |   |
| Weighted average fair value               | \$5.87                            | \$5.19 |   |
| Dividend yield                            | 3.29                              | % 4.05 | % |
| Expected volatility factor <sup>(1)</sup> | 29                                | % 30   | % |
| Risk-free interest rate <sup>(2)</sup>    | 2.1                               | % 1.5  | % |
| Expected life (in years) <sup>(3)</sup>   | 6.0                               | 6.0    |   |

Expected volatility is measured using historical daily price changes of the Company's stock over the respective (1) 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.

The expected life is the number of years the Company estimates that options will be outstanding prior to exercise.

(3) The Company's computation of expected life was determined based on the simplified method (the average of the vesting period and option term).

The shares under the 1-year PSU awards for the fiscal year 2014 and 2013 incentive plan years under the Company's long-term incentive plans were granted in the first six months of fiscal years 2015 and 2014, respectively. The awards vest 34% on the date of grant and 33% on the first and second anniversaries of the grant date. The table below summarizes the RSAs and RSUs granted under these PSUs:

| Incentive Plans<br>for Fiscal Years | Performance<br>Period | RSAs                    |                                           | RSUs                    |                                           |
|-------------------------------------|-----------------------|-------------------------|-------------------------------------------|-------------------------|-------------------------------------------|
|                                     |                       | Shares<br>(in millions) | Weighted Average<br>Grant Date Fair Value | Shares<br>(in millions) | Weighted Average<br>Grant Date Fair Value |
| 2014                                | 1 year                | 0.7                     | \$29.91                                   | 0.1                     | \$28.92                                   |
| 2013                                | 1 year                | 0.4                     | \$27.11                                   | 0.1                     | \$26.12                                   |

Share-based awards were granted under the Company's fiscal year 2014 and 2013 sales retention equity programs in the first six months of fiscal years 2015 and 2014, respectively. These awards vest on the third anniversary of the grant date. The table below summarizes the RSAs and RSUs granted under these programs:

| Incentive Plans<br>for Fiscal Years | Performance<br>Period | RSAs                    |                                           | RSUs                    |                                           |
|-------------------------------------|-----------------------|-------------------------|-------------------------------------------|-------------------------|-------------------------------------------|
|                                     |                       | Shares<br>(in millions) | Weighted Average<br>Grant Date Fair Value | Shares<br>(in millions) | Weighted Average<br>Grant Date Fair Value |
| 2014                                | 1 year                | 0.2                     | \$28.69                                   | 0.1                     | \$25.73                                   |
| 2013                                | 1 year                | 0.2                     | \$27.11                                   | 0.1                     | \$24.13                                   |

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## CA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 and six months ended September 30, 2014 and 2013:

|                                                       | Three Months Ended<br>September 30,<br>2014 |         | Six Months Ended<br>September 30,<br>2014 |         |
|-------------------------------------------------------|---------------------------------------------|---------|-------------------------------------------|---------|
|                                                       | 2013                                        |         | 2013                                      |         |
|                                                       | (shares in millions)                        |         |                                           |         |
| RSAs:                                                 |                                             |         |                                           |         |
| Shares                                                | 0.1                                         | —       | (1) 3.0                                   | 2.7     |
| Weighted average grant date fair value <sup>(2)</sup> | \$28.29                                     | \$30.39 | \$28.95                                   | \$27.01 |
| RSUs:                                                 |                                             |         |                                           |         |
| Shares                                                | —                                           | (1) —   | (1) 0.8                                   | 0.8     |
| Weighted average grant date fair value <sup>(3)</sup> | \$26.33                                     | \$30.13 | \$26.91                                   | \$25.37 |

(1) Less than 0.1 million.

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

The fair value is based on the quoted market value of the Company's common stock on the grant date reduced by (3) 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, 2014, the Company issued approximately 0.1 million shares under the ESPP at \$27.30 per share. As of September 30, 2014, approximately 29.5 million shares are available for future issuances under the ESPP.

**NOTE M – INCOME TAXES**

Income tax expense for the three and six months ended September 30, 2014 was approximately \$73 million and \$160 million, respectively, compared with income tax expense of approximately \$101 million for the three months ended September 30, 2013 and an income tax benefit of approximately \$21 million for the six months ended September 30, 2013. For the three and six months ended September 30, 2014, the Company recognized a discrete tax benefit of approximately \$19 million resulting from the resolutions of uncertain tax positions upon the completion of the examination of the Company's U.S. federal income tax returns for the tax years ended March 31, 2011 and 2012. For the six months ended September 30, 2013, the Company recognized a net discrete tax benefit of approximately \$179 million, resulting primarily from the resolutions of uncertain tax positions upon the completion of the examination of the Company's U.S. federal income tax returns for the tax years ended March 31, 2005, 2006 and 2007. The examinations of the Company's U.S. federal income tax returns have been concluded through the fiscal year ended March 31, 2012.

The Company's estimated annual effective tax rate, which excludes the impact of discrete items, for the six months ended September 30, 2014 and 2013 was 29.2% and 29.2%, 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 2015, 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 2015 and the Company is anticipating a fiscal year 2015 effective tax rate of approximately 30%.

**NOTE N – SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION**

For the six months ended September 30, 2014 and 2013, interest payments, net were approximately \$40 million and \$31 million, respectively, and income taxes paid, net were approximately \$181 million and \$246 million, respectively. For the six months ended September 30, 2014 and 2013, the excess tax benefits from share-based incentive awards included in financing activities from continuing operations were approximately \$3 million and \$3 million, respectively.

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## CA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Non-cash financing activities for the six months ended September 30, 2014 and 2013 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 \$27 million of income taxes withheld) and \$46 million (net of approximately \$27 million of income taxes withheld), respectively; and discretionary stock contributions to the CA, Inc. Savings Harvest Plan of approximately \$26 million and \$28 million, respectively. Non-cash financing activities for the six months ended September 30, 2014 and 2013 included approximately \$3 million and \$2 million, respectively, in treasury common shares issued in connection with the Company's Employee Stock Purchase Plan.

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 cash pooling arrangement for the six months ended September 30, 2014 and 2013 was as follows:

|                                                                    | Six Months Ended<br>September 30,<br>2014                  2013<br>(in millions) |         |
|--------------------------------------------------------------------|----------------------------------------------------------------------------------|---------|
| Total borrowings outstanding at beginning of period <sup>(1)</sup> | \$139                                                                            | \$136   |
| Borrowings                                                         | 2,703                                                                            | 1,609   |
| Repayments                                                         | (2,647)                                                                          | (1,639) |
| Foreign currency exchange effect                                   | (56)                                                                             | 20      |
| Total borrowings outstanding at end of period <sup>(1)</sup>       | \$139                                                                            | \$126   |

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

## NOTE O – 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; certain foreign exchange derivative hedging gains and losses; costs associated with the Company's Fiscal 2014 Plan; and other miscellaneous costs. The Company considers all costs of internally developed software as segment expense in the period the costs are incurred and as a result, the Company will add back capitalized internal software costs and exclude amortization of internally developed software costs previously capitalized from segment expenses. A measure of segment assets is not currently provided to the Company's Chief Executive Officer and has therefore not been disclosed.

The Company's segment information for the three and six months ended September 30, 2014 and 2013 was as follows:

| Three Months Ended September 30, 2014<br>(dollars in millions) | Mainframe<br>Solutions | Enterprise<br>Solutions | Services | Total   |   |
|----------------------------------------------------------------|------------------------|-------------------------|----------|---------|---|
| Revenue                                                        | \$610                  | \$378                   | \$91     | \$1,079 |   |
| Expenses                                                       | 234                    | 327                     | 89       | 650     |   |
| Segment profit                                                 | \$376                  | \$51                    | \$2      | \$429   |   |
| Segment operating margin                                       | 62                     | % 13                    | % 2      | % 40    | % |
| Depreciation                                                   | \$11                   | \$7                     | \$—      | \$18    |   |





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## CA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation of segment profit to income from continuing operations before income taxes for the three months ended September 30, 2014:

(in millions)

|                                                       |       |
|-------------------------------------------------------|-------|
| Segment profit                                        | \$429 |
| Less:                                                 |       |
| Purchased software amortization                       | 31    |
| Other intangibles amortization                        | 16    |
| Software development costs capitalized                | —     |
| Internally developed software products amortization   | 44    |
| Share-based compensation expense                      | 22    |
| Other expenses, net <sup>(1)</sup>                    | (4 )  |
| Interest expense, net                                 | 12    |
| Income from continuing operations before income taxes | \$308 |

(1) Other expenses, net consists of approximately \$12 million of costs associated with the Fiscal 2014 Plan, certain foreign exchange derivative hedging gains and losses, and other miscellaneous costs.

| Six Months Ended September 30, 2014<br>(dollars in millions) | Mainframe<br>Solutions | Enterprise<br>Solutions | Services | Total   |   |
|--------------------------------------------------------------|------------------------|-------------------------|----------|---------|---|
| Revenue                                                      | \$1,224                | \$746                   | \$178    | \$2,148 |   |
| Expenses                                                     | 469                    | 652                     | 171      | 1,292   |   |
| Segment profit                                               | \$755                  | \$94                    | \$7      | \$856   |   |
| Segment operating margin                                     | 62                     | % 13                    | % 4      | % 40    | % |
| Depreciation                                                 | \$23                   | \$14                    | \$—      | \$37    |   |

Reconciliation of segment profit to income from continuing operations before income taxes for the six months ended September 30, 2014:

(in millions)

|                                                       |       |
|-------------------------------------------------------|-------|
| Segment profit                                        | \$856 |
| Less:                                                 |       |
| Purchased software amortization                       | 59    |
| Other intangibles amortization                        | 31    |
| Software development costs capitalized                | —     |
| Internally developed software products amortization   | 83    |
| Share-based compensation expense                      | 42    |
| Other expenses, net <sup>(1)</sup>                    | 8     |
| Interest expense, net                                 | 26    |
| Income from continuing operations before income taxes | \$607 |

(1) Other expenses, net consists of approximately \$21 million of costs associated with the Fiscal 2014 Plan, certain foreign exchange derivative hedging gains and losses, and other miscellaneous costs.

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## CA, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

| Three Months Ended September 30, 2013<br>(dollars in millions) | Mainframe<br>Solutions | Enterprise<br>Solutions | Services | Total   |   |
|----------------------------------------------------------------|------------------------|-------------------------|----------|---------|---|
| Revenue                                                        | \$624                  | \$384                   | \$97     | \$1,105 |   |
| Expenses                                                       | 232                    | 337                     | 88       | 657     |   |
| Segment profit                                                 | \$392                  | \$47                    | \$9      | \$448   |   |
| Segment operating margin                                       | 63                     | % 12                    | % 9      | % 41    | % |
| Depreciation                                                   | \$13                   | \$9                     | \$—      | \$22    |   |

Reconciliation of segment profit to income from continuing operations before income taxes for the three months ended September 30, 2013:

(in millions)

|                                                       |       |   |
|-------------------------------------------------------|-------|---|
| Segment profit                                        | \$448 |   |
| Less:                                                 |       |   |
| Purchased software amortization                       | 31    |   |
| Other intangibles amortization                        | 15    |   |
| Software development costs capitalized                | (8    | ) |
| Internally developed software products amortization   | 38    |   |
| Share-based compensation expense                      | 20    |   |
| Other expenses, net <sup>(1)</sup>                    | 7     |   |
| Interest expense, net                                 | 13    |   |
| Income from continuing operations before income taxes | \$332 |   |

(1) Other expenses, net consists of approximately \$2 million of costs associated with the Fiscal 2014 Plan, certain foreign exchange derivative hedging gains and losses, and other miscellaneous costs.

| Six Months Ended September 30, 2013<br>(dollars in millions) | Mainframe<br>Solutions | Enterprise<br>Solutions | Services | Total   |   |
|--------------------------------------------------------------|------------------------|-------------------------|----------|---------|---|
| Revenue                                                      | \$1,243                | \$762                   | \$195    | \$2,200 |   |
| Expenses                                                     | 475                    | 688                     | 178      | 1,341   |   |
| Segment profit                                               | \$768                  | \$74                    | \$17     | \$859   |   |
| Segment operating margin                                     | 62                     | % 10                    | % 9      | % 39    | % |
| Depreciation                                                 | \$27                   | \$17                    | \$—      | \$44    |   |

Reconciliation of segment profit to income from continuing operations before income taxes for the six months ended September 30, 2013:

(in millions)

|                                                       |       |   |
|-------------------------------------------------------|-------|---|
| Segment profit                                        | \$859 |   |
| Less:                                                 |       |   |
| Purchased software amortization                       | 59    |   |
| Other intangibles amortization                        | 29    |   |
| Software development costs capitalized                | (31   | ) |
| Internally developed software products amortization   | 76    |   |
| Share-based compensation expense                      | 40    |   |
| Other expenses, net <sup>(1)</sup>                    | 122   |   |
| Interest expense, net                                 | 24    |   |
| Income from continuing operations before income taxes | \$540 |   |

(1) Other expenses, net consists of approximately \$119 million of costs associated with the Fiscal 2014 Plan, certain foreign exchange derivative hedging gains and losses, and other miscellaneous costs.

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CA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

|                     | Three Months Ended<br>September 30, |         | Six Months Ended<br>September 30, |         |
|---------------------|-------------------------------------|---------|-----------------------------------|---------|
|                     | 2014                                | 2013    | 2014                              | 2013    |
|                     | (in millions)                       |         |                                   |         |
| United States       | \$656                               | \$671   | \$1,299                           | \$1,328 |
| EMEA <sup>(1)</sup> | 259                                 | 267     | 518                               | 531     |
| Other               | 164                                 | 167     | 331                               | 341     |
| Total revenue       | \$1,079                             | \$1,105 | \$2,148                           | \$2,200 |

(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 beliefs 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, 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 is subject to the determination of the Company’s Board of Directors, in its sole discretion, after considering various factors, including the Company’s financial condition, historical and forecast 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 are expected to be made with cash on hand and 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.

A number of important factors could cause actual results or events to differ materially from those indicated by forward-looking statements, including: the ability to achieve success in the Company’s strategy by, among other things, effectively managing the Company’s sales force to enable the Company to maintain and enhance its strong relationships in its traditional customer base and to increase penetration and accelerate growth in customer segments and geographic regions where the Company currently may not have a strong presence or the Company has underserved, enabling the sales force to sell new products, improving the Company’s brand, technology and innovation awareness in the marketplace and ensuring the Company’s set of cloud computing, application development and IT operations (DevOps), Software-as-a-Service, mobile device management and other new offerings address the needs of a rapidly changing market, while not adversely affecting the demand for the Company’s traditional products or its profitability; global economic factors or political events beyond the Company’s control; general economic conditions and credit constraints, or unfavorable economic conditions in a particular region, industry or business sector; the failure to innovate and/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 failure to expand partner programs; the ability to retain and attract adequate qualified personnel; the ability of the Company’s products to remain compatible with ever-changing operating environments, platforms or third-party products; the ability to successfully integrate acquired companies and products into the Company’s existing business; the ability to adequately manage, evolve and protect the Company’s information systems, infrastructure and processes; risks associated with sales to government customers; breaches of the Company’s data center, network and software products, and the IT environments of the Company’s vendors and customers; 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; 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; 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; the failure to renew large license transactions on a satisfactory basis; potential tax liabilities; changes in market conditions or the Company’s credit ratings; fluctuations in foreign currencies; 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 2015 and fiscal 2014 are to our fiscal years ending on March 31, 2015 and 2014, respectively.

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### OVERVIEW

We are one of the world's leading providers of information technology (IT) management software and solutions. Our solutions help organizations of all sizes develop, manage, and secure complex IT environments that increase productivity and enhance the competitiveness in their businesses. We do this across a wide range of environments such as mainframe, distributed, cloud, and mobile. The majority of the Global Fortune 500 relies on us to help manage their IT environments.

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

Innovating in key product areas to extend our market leadership and differentiation. Our product development strategy is built around three key growth areas, where we are focused on innovating and delivering differentiated products and solutions: application development and IT operations (DevOps), Management Cloud, and Security across multiple platforms.

Addressing shifts in market dynamics and technology. We will innovate to deliver new differentiated solutions that enable our customers to manage the challenges and capture the opportunities of disruptive technologies such as the ability to harvest big data, the shift to software-defined IT, the proliferation of mobile technologies, social access (or social credentials) authentication, and the always on, ubiquitously connected "Internet of Things."

Accelerating growth in our global customer base. We are focused on maintaining strong relationships with our core, large enterprise customer base, and will proactively target growth with these customers as well as new large enterprises we do not currently serve. In parallel, we are broadening our customer base to new buyer segments beyond the customer's Chief Information Officer and IT department and increasingly to geographic regions we have underserved.

Pursuing new business models and expanded routes to market. While our traditional on-premise software delivery remains core to our enterprise customers, we see Software-as-a-Service (SaaS) and managed services as increasingly attractive for our customers. This simplifies their decision-making and accelerates the value they can derive from new solution investments. This delivery model allows us to extend our market reach, speed adoption of our solutions, improve our efficiencies, and compete more effectively for a larger number of customers globally.

We have a broad and deep portfolio of software solutions with which to execute our business strategy. We organize our offerings in Mainframe Solutions, Enterprise Solutions and Services segments.

Mainframe Solutions products are designed mainly for the IBM System z mainframe platform, which runs many of our largest customers' mission-critical applications. We help customers seamlessly manage their mainframe as part of their evolving data center through flexible management approaches, cross-platform visibility and workload portability.

Enterprise Solutions products operate on non-mainframe platforms and include our DevOps, Management Cloud, and Security product groups. DevOps includes application delivery, application performance management and infrastructure management. Management Cloud helps customers optimize their investments, projects, resources and processes. Security delivers identity-centric security solutions to meet the needs of today's mobile, cloud-connected, open enterprise.

Services helps customers reach their IT and business goals by enabling the rapid implementation and adoption of our mainframe solutions and enterprise solutions.

Our traditional core customers generally consist of large enterprises that have computing environments from multiple vendors and are highly complex. We currently serve customers across most major industries worldwide, including banks, insurance companies, other financial services providers, government agencies, global service providers, telecommunication providers, manufacturers, technology companies, retailers, educational organizations and health care institutions.

We offer our solutions through our direct sales force and indirectly through our partners. We remain focused on strengthening relationships with our core customers--which we refer to as our "Platinum" customers, consisting of our top 500 accounts-- through product leadership, account management and a differentiated customer experience. We believe enhanced relationships in our traditional customer base of large enterprises with multi-year enterprise license

agreements will drive renewals and provide opportunities to increase account penetration that will help to drive revenue growth.

At the same time, we continue to dedicate sales resources and deploy additional solutions to address opportunities to sell to new enterprises and to expand our relationship with existing non-core customers--which we refer to as our "Named" customers. In addition to this dedication of additional sales resources, we service some of these customers through partners. We believe we can grow our business and increase market share by delivering differentiated technology and collaborating with partners, including service providers, to leverage their relationships, market reach and implementation capacity. We are deploying new routes to market, and simplifying the buying and deployment process for our customers.

This customer focus allows us to better align marketing and sales resources with how customers want to buy. We have also implemented broad-based business initiatives to drive accountability for sales execution.

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Work is underway to deploy an updated global branding and marketing program for CA Technologies to significantly enhance our connection with new and existing customers, introduce the market to new areas of our capability and contribute directly to business growth and new customer acquisitions. Marketing efforts are key to our ability to expand our customer base, reach new segments and grow in key global markets.

### EXECUTIVE SUMMARY

In the second quarter, we continued to see traction against our strategic and operational goals, including an increase in our enterprise solutions new product sales for the second consecutive quarter. We also continued to see strong performance in connection with renewals and financial discipline across the business. Lastly, we completed our divestiture of the CA arcserve data protection business (arcserve).

A summary of key results for the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 is as follows:

#### Revenue:

Total revenue declined 2% primarily as a result of a decrease in subscription and maintenance revenue, which was primarily due to a decrease in Mainframe Solutions revenue and, to a lesser extent, a decrease in professional services revenue. The decrease in professional services revenue was primarily due to a decrease in the size and number of professional services engagements during the first quarter of fiscal 2015, including non-core engagements with government customers that are not directly related to our software product sales. We currently expect the percentage decline in professional services revenue to be greater than the percentage decline in total revenue for fiscal 2015 compared with fiscal 2014 as a result of the decline in non-core professional services engagements with government customers as referenced above.

As a result of insufficient revenue from prior period new sales to offset the decline in revenue contribution from renewals, we continue to expect a year-over-year decrease in total revenue for fiscal 2015 compared with fiscal 2014 due to the high percentage of our revenue that is recognized from license agreements with customers signed in prior periods that are being recognized ratably. Excluding the effect of foreign exchange, we currently expect the year-over-year percentage decline in total revenue for fiscal 2015 compared with fiscal 2014 to be similar to the year-over-year percentage decline in total revenue for fiscal 2014 compared with fiscal 2013.

#### Bookings:

- Total bookings decreased 11% primarily due to an expected year-over-year decrease in renewals within subscription and maintenance bookings, partially offset by an increase in professional services bookings.
- Total renewals decreased by a percentage in the low twenties primarily due to the timing of our renewals. This timing reflects the decrease in the value of contracts generally available for renewal compared with the year-ago period.
- Total new product sales, a subset of our total bookings, increased by a mid-single-digit percentage.
- Mainframe solutions new sales decreased by a percentage in the low twenties primarily due to the timing of our renewals and the composition of the renewal portfolio being more heavily weighted to enterprise solutions renewals in the quarter.
- Enterprise solutions new product sales increased by a percentage in the low teens as a result of increased sales in our Named customer accounts in all regions, and to a lesser extent, increased sales in our Platinum customer accounts.
- We continue to expect the value of our fiscal 2015 renewal portfolio to decline by a high-single-digit percentage compared with fiscal 2014. Excluding the impact from a contract renewal with a large system integrator that occurred during the third quarter of fiscal 2014, we continue to expect the value of our fiscal 2015 renewal portfolio to be consistent with the value of our fiscal 2014 renewal portfolio. For the third quarter of fiscal 2015, we expect the value of our renewal portfolio to decline, and for the fourth quarter of fiscal 2015, we expect it to increase.

#### Expenses:

Total expenses before interest and income taxes was generally consistent compared with the year-ago period. We expect an increase in selling and marketing expenses in the third quarter of fiscal 2015 as a result of expenses associated with CA World '14, which is scheduled to occur in the third quarter of fiscal 2015.

#### Income taxes:

•



Income tax expense decreased from \$101 million to \$73 million due to the overall decrease to income from continuing operations before taxes and the recognition of a discrete tax benefit of \$19 million resulting from the resolution of uncertain tax positions in the second quarter of fiscal 2015.

•We expect a fiscal 2015 effective tax rate of 30%.

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Diluted income per common share from continuing operations:

Diluted income per common share from continuing operations increased to \$0.53 from \$0.51, primarily due to the increase in income from continuing operations and the decrease in the weighted average shares outstanding compared with the year-ago period.

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. Operating margin was generally consistent compared with the year-ago period.

Enterprise Solutions revenue decreased primarily due to a decrease in revenue that is recognized on an up-front basis in the current period. The decline was primarily due to an increase in the percentage of our Enterprise Solutions new sales sold in connection with renewals compared with the year-ago period. In addition, within Enterprise Solutions there was an unfavorable effect from the decrease in revenue from certain mature product lines, partially offset by an increase in revenue from recently acquired products and sales of newly developed technologies. Enterprise Solutions operating margin was generally consistent compared with the year-ago period.

Services revenue decreased primarily as a result of a decrease in the size and number of services engagements during the first quarter of fiscal 2015, including non-core engagements with government customers that are not directly related to our software product sales. We expect the percentage decline in services revenue to be greater than the percentage decline in total revenue for fiscal 2015 compared with fiscal 2014. Operating margin for our Services segment decreased as a result of a number of factors, including the decrease in revenue and lower utilization rates for services personnel due to the decrease in the number of services engagements.

Cash flows from continuing operations:

Net cash provided by operating activities from continuing operations decreased \$7 million. Net cash provided by operating activities from continuing operations for the second quarter of fiscal 2014 was positively affected by a tax refund of \$70 million. Net cash provided by operating activities from continuing operations for the second quarter of fiscal 2015 was positively affected by an increase in cash collections of \$97 million. The increase in cash collections was primarily attributable to higher single installment collections of \$76 million during the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014.

QUARTERLY UPDATE

In July 2014, the Company sold arcserve for \$170 million and recognized a gain on disposal of \$19 million, including tax expense of \$77 million.

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## 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:

|                                                                                   | Second Quarter Comparison |                     |               |                   |    |
|-----------------------------------------------------------------------------------|---------------------------|---------------------|---------------|-------------------|----|
|                                                                                   | Fiscal                    |                     |               |                   |    |
|                                                                                   | 2015 <sup>(1)</sup>       | 2014 <sup>(1)</sup> | Dollar Change | Percentage Change |    |
|                                                                                   | (dollars in millions)     |                     |               |                   |    |
| Total revenue                                                                     | \$1,079                   | \$1,105             | \$(26         | ) (2              | )% |
| Income from continuing operations                                                 | \$235                     | \$231               | \$4           | 2                 | %  |
| Net cash provided by operating activities - continuing operations                 | \$66                      | \$73                | \$(7          | ) (10             | )% |
| Total bookings                                                                    | \$749                     | \$844               | \$(95         | ) (11             | )% |
| Subscription and maintenance bookings                                             | \$571                     | \$695               | \$(124        | ) (18             | )% |
| Weighted average subscription and maintenance license agreement duration in years | 3.10                      | 3.32                | (0.22         | ) (7              | )% |
|                                                                                   | First Half Comparison     |                     |               |                   |    |
|                                                                                   | Fiscal                    |                     |               |                   |    |
|                                                                                   | 2015 <sup>(1)</sup>       | 2014 <sup>(1)</sup> | Dollar Change | Percentage Change |    |
|                                                                                   | (dollars in millions)     |                     |               |                   |    |
| Total revenue                                                                     | \$2,148                   | \$2,200             | \$(52         | ) (2              | )% |
| Income from continuing operations                                                 | \$447                     | \$561               | \$(114        | ) (20             | )% |
| Net cash provided by operating activities - continuing operations                 | \$232                     | \$76                | \$156         | 205               | %  |
| Total bookings                                                                    | \$1,473                   | \$1,640             | \$(167        | ) (10             | )% |
| Subscription and maintenance bookings                                             | \$1,174                   | \$1,312             | \$(138        | ) (11             | )% |
| Weighted average subscription and maintenance license agreement duration in years | 3.22                      | 3.22                | —             | —                 | %  |

|                                                                                    | September 30,<br>2014 | March 31,<br>2014 | Change<br>From<br>Year End | September 30,<br>2013 | Change<br>From Prior<br>Year Quarter |
|------------------------------------------------------------------------------------|-----------------------|-------------------|----------------------------|-----------------------|--------------------------------------|
|                                                                                    | (in millions)         |                   |                            |                       |                                      |
| Cash, cash equivalents and short-term investments <sup>(2)</sup>                   | \$3,193               | \$3,252           | \$(59)                     | \$2,799               | \$394                                |
| Total debt                                                                         | \$1,763               | \$1,766           | \$(3)                      | \$1,779               | \$(16)                               |
| Total expected future cash collections from committed contracts <sup>(1) (3)</sup> | \$4,586               | \$5,148           | \$(562)                    | \$4,922               | \$(336)                              |
| Total revenue backlog <sup>(1) (3)</sup>                                           | \$6,811               | \$7,639           | \$(828)                    | \$7,153               | \$(342)                              |
| Total current revenue backlog <sup>(1) (3)</sup>                                   | \$3,230               | \$3,500           | \$(270)                    | \$3,325               | \$(95)                               |

(1) Information presented excludes the results of our discontinued operations.

(2) At September 30, 2014 and March 31, 2014, short-term investments were less than \$1 million, respectively. At September 30, 2013, short-term investments were \$9 million.

(3) Refer to the discussion in the “Liquidity and Capital Resources” section of this MD&A for additional information on expected future cash collections from committed contracts and revenue backlog.

Analyses of our performance indicators shown above and our segment performance can be found in the “Results of Operations” and “Liquidity and Capital Resources” sections of this MD&A.

Total Revenue — Total revenue is the amount of revenue recognized during the reporting period from the sale of license, maintenance and professional services agreements. Amounts recognized as subscription and maintenance revenue are

recognized ratably over the term of the agreement. Professional services revenue is generally recognized as the services are performed or recognized on a ratably basis over the term of the related software license. Software fees and other revenue generally represents license fee revenue recognized at the inception of a license agreement (up-front basis) and also includes our SaaS revenue, which is recognized as services are provided.

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**Total Bookings** — Total bookings, or sales, includes the incremental value of all subscription, maintenance and professional services contracts and software fees and other contracts entered into during the reporting period and is generally reflective of the amount of products and services during the period that our customers have agreed to purchase from us. Revenue for bookings attributed to sales of software products for which license fee revenue is recognized on an up-front basis is reflected in “Software fees and other” in our Condensed Consolidated Statements of Operations.

As our business strategy has evolved, our management looks within total bookings at renewal bookings, which we define as bookings attributable to the renewable value of a prior contract (i.e., the maintenance value and, in the case of non-perpetual licenses, the license value), and at total new product sales, which we define as sales of mainframe and enterprise solutions products, and mainframe solutions capacity that are new or in addition to products or mainframe solutions capacity previously contracted for by a customer. Mainframe solutions new product sales and capacity growth can be inconsistent on both a quarterly and annual basis. We believe the period-over-period change in mainframe solutions new product sales and capacity combined is a more appropriate measure of performance and, therefore, we provide only total mainframe solutions new sales information, which includes mainframe solutions capacity.

The amount of new product sales for a period, as currently tracked by us, requires estimation by management and has not been historically reported. Within a given period, the amount of new product sales may not be material to the change in our total bookings or revenue compared with prior periods. New product sales can be reflected as subscription and maintenance bookings in the period (for which revenue would be recognized ratably over the term of the contract) or in software fees and other bookings (which are recognized as software fees and other revenue in the current period).

**Subscription and Maintenance Bookings** — Subscription and maintenance bookings is the aggregate incremental amount we expect to collect from our customers over the terms of the underlying subscription and maintenance agreements entered into during a reporting period. These amounts include the sale of products directly by us and may include additional products, services or other fees for which we have not established vendor specific objective evidence (VSOE). Subscription and maintenance bookings also includes indirect sales by distributors and volume partners, value-added resellers and exclusive representatives to end-users, where the contracts incorporate the right for end-users to receive unspecified future software products, and other contracts without these rights entered into in close proximity or contemplation of such agreements. These amounts are expected to be recognized ratably as subscription and maintenance revenue over the applicable term of the agreements. Subscription and maintenance bookings excludes the value associated with perpetual licenses for which revenue is recognized on an up-front basis, SaaS offerings and professional services arrangements.

The license and maintenance agreements that contribute to subscription and maintenance bookings represent binding payment commitments by customers over periods that range generally from three to five years, although in certain cases customer commitments can be for longer or shorter periods. These current period bookings are often renewals of prior contracts that also had various durations, usually from three to five years. The amount of new subscription and maintenance bookings recorded in a period is affected by the volume, duration and value of contracts renewed during that period. Subscription and maintenance bookings typically increases in each consecutive quarter during a fiscal year, with the first quarter having the least bookings and the fourth quarter having the most bookings. However, subscription and maintenance bookings may not always follow the pattern of increasing in consecutive quarters during a fiscal year, and the quarter-to-quarter differences in subscription and maintenance bookings may vary. Given the varying durations of the contracts being renewed, year-over-year comparisons of bookings are not always indicative of the overall bookings trend.

Within bookings, we also consider the yield on our renewals. We define “renewal yield” as the percentage of the renewable value of a prior contract (i.e., the maintenance value and, in the case of non-perpetual licenses, the license value) realized in current period bookings. The renewable value of a prior contract is an estimate affected by various factors including contractual renewal terms, price increases and other conditions. Price increases after December 31, 2012 are not considered as part of the renewable value of the prior period contract. We estimate the aggregate renewal yield for a quarter based on a review of material transactions representing a substantial majority of the dollar value of

renewals during the current period. There may be no correlation between year-over-year changes in bookings and year-over-year changes in renewal yield, since renewal yield is based on the renewable value of contracts of various durations, most of which are longer than one year.

Additionally, period-to-period changes in subscription and maintenance bookings do not necessarily correlate to changes in cash receipts. The contribution to current period revenue from subscription and maintenance bookings from any single license or maintenance agreement is relatively small, since revenue is recognized ratably over the applicable term for these agreements.

**Weighted Average Subscription and Maintenance License Agreement Duration in Years** — The weighted average subscription and maintenance license agreement duration in years reflects the duration of all subscription and maintenance agreements executed during a period, weighted by the total contract value of each individual agreement. Weighted average subscription and maintenance license agreement duration in years can fluctuate from period to period depending on the mix of license agreements entered into during a period. Weighted average duration information is disclosed in order to provide additional understanding of the volume of our bookings.

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**Total Revenue Backlog** — Total revenue backlog represents the aggregate amount we expect to recognize as revenue in the future as either subscription and maintenance revenue, professional services revenue or software fees and other revenue associated with contractually committed amounts billed or to be billed as of the balance sheet date. Total revenue backlog is composed of amounts recognized as liabilities in our Condensed Consolidated Balance Sheets as deferred revenue (billed or collected) as well as unearned amounts yet to be billed under subscription and maintenance and software fees and other agreements. Classification of amounts as current and noncurrent depends on when such amounts are expected to be earned and, therefore, recognized as revenue. Amounts that are expected to be earned and, therefore, recognized as revenue in 12 months or less are classified as current, while amounts expected to be earned in greater than 12 months are classified as noncurrent. The portion of the total revenue backlog that relates to subscription and maintenance agreements is recognized as revenue evenly on a monthly basis over the duration of the underlying agreements and is reported as subscription and maintenance revenue in our Condensed Consolidated Statements of Operations. Generally, we believe that an increase or decrease in the current portion of revenue backlog on a year-over-year basis is a favorable or unfavorable indicator of future subscription and maintenance revenue performance, respectively, due to the high percentage of our revenue that is recognized from license agreements that are already committed and being recognized ratably.

“Deferred revenue (billed or collected)” is composed of: (i) amounts received from customers in advance of revenue recognition and (ii) amounts billed but not collected for which revenue has not yet been earned.

**RESULTS OF OPERATIONS**

The following tables present revenue and expense line items reported in our Condensed Consolidated Statements of Operations for the second quarter and first half of fiscal 2015 and fiscal 2014 and the period-over-period dollar and percentage changes for those line items. These comparisons of past results are not necessarily indicative of future results.

|                                                                    | Second Quarter Comparison Fiscal 2015 Versus Fiscal 2014 |                     |                                 |                                     |                                |      |
|--------------------------------------------------------------------|----------------------------------------------------------|---------------------|---------------------------------|-------------------------------------|--------------------------------|------|
|                                                                    | 2015 <sup>(1)</sup>                                      | 2014 <sup>(1)</sup> | Dollar<br>Change<br>2015 / 2014 | Percentage<br>Change<br>2015 / 2014 | Percentage of<br>Total Revenue |      |
|                                                                    | (dollars in millions)                                    |                     |                                 |                                     | 2015                           | 2014 |
| Revenue:                                                           |                                                          |                     |                                 |                                     |                                |      |
| Subscription and maintenance                                       | \$908                                                    | \$922               | \$(14)                          | (2)%                                | 84                             | 83   |
| Professional services                                              | 91                                                       | 97                  | (6)                             | (6)                                 | 9                              | 9    |
| Software fees and other                                            | 80                                                       | 86                  | (6)                             | (7)                                 | 7                              | 8    |
| Total revenue                                                      | \$1,079                                                  | \$1,105             | \$(26)                          | (2)%                                | 100                            | 100  |
| Expenses:                                                          |                                                          |                     |                                 |                                     |                                |      |
| Costs of licensing and maintenance                                 | \$71                                                     | \$71                | \$—                             | —                                   | 7                              | 6    |
| Cost of professional services                                      | 88                                                       | 88                  | —                               | —                                   | 8                              | 8    |
| Amortization of capitalized software costs                         | 75                                                       | 69                  | 6                               | 9                                   | 7                              | 6    |
| Selling and marketing                                              | 253                                                      | 248                 | 5                               | 2                                   | 23                             | 22   |
| General and administrative                                         | 87                                                       | 91                  | (4)                             | (4)                                 | 8                              | 8    |
| Product development and enhancements                               | 150                                                      | 142                 | 8                               | 6                                   | 14                             | 13   |
| Depreciation and amortization of other intangible assets           | 34                                                       | 37                  | (3)                             | (8)                                 | 3                              | 3    |
| Other expenses, net                                                | 1                                                        | 14                  | (13)                            | (93)                                | —                              | 1    |
| Total expenses before interest and income taxes                    | \$759                                                    | \$760               | \$(1)                           | —                                   | 70                             | 69   |
| Income from continuing operations before interest and income taxes | \$320                                                    | \$345               | \$(25)                          | (7)%                                | 30                             | 31   |

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|                                                       |       |       |       |       |       |      |   |  |
|-------------------------------------------------------|-------|-------|-------|-------|-------|------|---|--|
| Interest expense, net                                 | 12    | 13    | (1    | ) (8  | ) 1   | 1    |   |  |
| Income from continuing operations before income taxes | \$308 | \$332 | \$(24 | ) (7  | )% 29 | % 30 | % |  |
| Income tax expense                                    | 73    | 101   | (28   | ) (28 | ) 7   | 9    |   |  |
| Income from continuing operations                     | \$235 | \$231 | \$4   | 2     | % 22  | % 21 | % |  |

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## First Half Comparison Fiscal 2015 Versus Fiscal 2014

|                                                                    | 2015 <sup>(1)</sup>   | 2014 <sup>(1)</sup> | Dollar<br>Change<br>2015 / 2014 | Percentage<br>Change<br>2015 / 2014 | Percentage of<br>Total Revenue<br>2015 | 2014 |   |
|--------------------------------------------------------------------|-----------------------|---------------------|---------------------------------|-------------------------------------|----------------------------------------|------|---|
|                                                                    | (dollars in millions) |                     |                                 |                                     |                                        |      |   |
| Revenue:                                                           |                       |                     |                                 |                                     |                                        |      |   |
| Subscription and maintenance                                       | \$1,817               | \$1,844             | \$(27)                          | (1)%                                | 85                                     | 84   | % |
| Professional services                                              | 178                   | 195                 | (17)                            | (9)%                                | 8                                      | 9    |   |
| Software fees and other                                            | 153                   | 161                 | (8)                             | (5)%                                | 7                                      | 7    |   |
| Total revenue                                                      | \$2,148               | \$2,200             | \$(52)                          | (2)%                                | 100                                    | 100  | % |
| Expenses:                                                          |                       |                     |                                 |                                     |                                        |      |   |
| Costs of licensing and maintenance                                 | \$143                 | \$139               | \$4                             | 3%                                  | 7                                      | 6    | % |
| Cost of professional services                                      | 169                   | 176                 | (7)                             | (4)%                                | 8                                      | 8    |   |
| Amortization of capitalized software costs                         | 142                   | 135                 | 7                               | 5%                                  | 7                                      | 6    |   |
| Selling and marketing                                              | 499                   | 517                 | (18)                            | (3)%                                | 23                                     | 24   |   |
| General and administrative                                         | 179                   | 182                 | (3)                             | (2)%                                | 8                                      | 8    |   |
| Product development and enhancements                               | 300                   | 274                 | 26                              | 9%                                  | 14                                     | 12   |   |
| Depreciation and amortization of other intangible assets           | 68                    | 73                  | (5)                             | (7)%                                | 3                                      | 3    |   |
| Other expenses, net                                                | 15                    | 140                 | (125)                           | (89)%                               | 1                                      | 6    |   |
| Total expenses before interest and income taxes                    | \$1,515               | \$1,636             | \$(121)                         | (7)%                                | 71                                     | 74   | % |
| Income from continuing operations before interest and income taxes | \$633                 | \$564               | \$69                            | 12%                                 | 29                                     | 26   | % |
| Interest expense, net                                              | 26                    | 24                  | 2                               | 8%                                  | 1                                      | 1    |   |
| Income from continuing operations before income taxes              | \$607                 | \$540               | \$67                            | 12%                                 | 28                                     | 25   | % |
| Income tax expense                                                 | 160                   | (21)                | 181                             | NM                                  | 7                                      | (1)  | ) |
| Income from continuing operations                                  | \$447                 | \$561               | \$(114)                         | (20)%                               | 21                                     | 26   | % |

(1) Information presented excludes the results of our discontinued operations.

Note: Amounts may not add to their respective totals due to rounding.

## Revenue

## Total Revenue

As more fully described below, the decrease in total revenue in the second quarter and first half of fiscal 2015 compared with the second quarter and first half of fiscal 2014, respectively, was a result of a decrease in subscription and maintenance revenue, which was primarily due to a decrease in Mainframe Solutions revenue and, to a lesser extent, a decrease in professional services revenue. There was also a favorable foreign exchange effect of \$5 million and \$10 million for the second quarter and first half of fiscal 2015, respectively.

As a result of insufficient revenue from prior period new sales to offset the decline in revenue contribution from renewals, we continue to expect a year-over-year decrease in total revenue for fiscal 2015 compared with fiscal 2014 due to the high percentage of our revenue that is recognized from license agreements with customers signed in prior periods that are being recognized ratably. Excluding the effect of foreign exchange, we currently expect the year-over-year percentage decline in total revenue for fiscal 2015 compared with fiscal 2014 to be similar to the year-over-year percentage decline in total revenue for fiscal 2014 compared with fiscal 2013.

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### Subscription and Maintenance

Subscription and maintenance revenue is the amount of revenue recognized ratably during the reporting period from: (i) subscription license agreements that were in effect during the period, generally including maintenance that is bundled with and not separately identifiable from software usage fees or product sales, (ii) maintenance agreements associated with providing customer technical support and access to software fixes and upgrades that are separately identifiable from software usage fees or product sales, and (iii) license agreements bundled with additional products, maintenance or professional services for which VSOE has not been established. These amounts include the sale of products directly by us, as well as by distributors and volume partners, value-added resellers and exclusive representatives to end-users, where the contracts incorporate the right for end-users to receive unspecified future software products, and other contracts entered into in close proximity or contemplation of such agreements.

The decrease in subscription and maintenance revenue for the second quarter and first half of fiscal 2015 compared with the second quarter and first half of fiscal 2014, respectively, was primarily attributable to a decrease in Mainframe Solutions revenue (see “Performance of Segments” below). There was also a favorable foreign exchange effect of \$5 million and \$10 million for the second quarter and first half of fiscal 2015, respectively.

### Professional Services

Professional services revenue primarily includes product implementation, consulting, customer education and customer training. Professional services revenue for the second quarter and first half of fiscal 2015 decreased compared with the second quarter and first half of fiscal 2014, respectively, as a result of a decrease in the size and number of professional services engagements during the first quarter of fiscal 2015, including non-core engagements with government customers that are not directly related to our software product sales. We currently expect the percentage decline in professional services revenue to be greater than the percentage decline in total revenue for fiscal 2015 compared with fiscal 2014. This decline is primarily a result of the decrease in non-core professional services engagements with government customers that are not directly related to our software product sales. We are also refocusing on professional services engagements that drive new product sales. In addition, for the long-term, we expect new versions of our on-premise software to be easier to implement and a higher percentage of our business to shift to a SaaS-based model, which could potentially reduce the demand for our professional services engagements.

### Software Fees and Other

Software fees and other revenue consists primarily of revenue that is recognized on an up-front basis. This includes revenue associated with enterprise solutions products sold on an up-front basis directly by our sales force or through transactions with distributors and volume partners, value-added resellers and exclusive representatives (sometimes referred to as our “indirect” or “channel” revenue). It also includes our SaaS revenue, which is recognized as the services are provided, generally ratably over the term of the SaaS arrangement, rather than up-front.

Software fees and other revenue decreased for the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 as a result of a decrease in sales of enterprise solutions products recognized on an up-front basis. The decrease in these sales of enterprise solutions products was primarily due to the increase in the amount of enterprise solutions product sales made in connection with renewal transactions that are recognized ratably within subscription and maintenance revenue. These decreases were partially offset by an increase in revenue from our SaaS offerings. Software fees and other revenue decreased for the first half of fiscal 2015 compared with the first half of fiscal 2014 as a result of a decrease in sales of enterprise solutions products recognized on an up-front basis and a decrease in non re-occurring fees which have been recognized as other revenue.

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## Total Revenue by Geography

The following tables present the amount of revenue earned from sales to unaffiliated customers in the United States and international regions and corresponding percentage changes for the second quarter and first half of fiscal 2015 and the second quarter and first half of fiscal 2014.

| Second Quarter Comparison Fiscal 2015 Versus Fiscal 2014 |                       |                                |                     |                                |                  |                      |
|----------------------------------------------------------|-----------------------|--------------------------------|---------------------|--------------------------------|------------------|----------------------|
|                                                          | 2015 <sup>(1)</sup>   | Percentage of<br>Total Revenue | 2014 <sup>(1)</sup> | Percentage of<br>Total Revenue | Dollar<br>Change | Percentage<br>Change |
|                                                          | (dollars in millions) |                                |                     |                                |                  |                      |
| United States                                            | \$656                 | 61                             | % \$671             | 61                             | % \$(15          | ) (2) )%             |
| International                                            | 423                   | 39                             | 434                 | 39                             | (11              | ) (3) )              |
| Total Revenue                                            | \$1,079               | 100                            | % \$1,105           | 100                            | % \$(26          | ) (2) )%             |
| First Half Comparison Fiscal 2015 Versus Fiscal 2014     |                       |                                |                     |                                |                  |                      |
|                                                          | 2015 <sup>(1)</sup>   | Percentage of<br>Total Revenue | 2014 <sup>(1)</sup> | Percentage of<br>Total Revenue | Dollar<br>Change | Percentage<br>Change |
|                                                          | (dollars in millions) |                                |                     |                                |                  |                      |
| United States                                            | \$1,299               | 60                             | % \$1,328           | 60                             | % \$(29          | ) (2) )%             |
| International                                            | 849                   | 40                             | 872                 | 40                             | (23              | ) (3) )              |
| Total Revenue                                            | \$2,148               | 100                            | % \$2,200           | 100                            | % \$(52          | ) (2) )%             |

(1) Information presented excludes the results of our discontinued operations.

Revenue in the United States decreased for the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 primarily due to a decrease in subscription and maintenance revenue, professional services revenue and software fees and other revenue. International revenue decreased for the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 primarily due to a decrease in subscription and maintenance revenue. Partially offsetting this decrease was an increase in Europe, Middle East and Africa region new product sales for which revenue is recognized on an up-front basis.

Revenue in the United States decreased for the first half of fiscal 2015 compared with the first half of fiscal 2014 primarily due to a decrease in subscription and maintenance revenue, professional services revenue and software fees and other revenue. International revenue decreased for the first half of fiscal 2015 compared with the first half of fiscal 2014 primarily due to a decrease in subscription and maintenance revenue.

Price changes do not have a material effect on revenue in a given period as a result of our ratable subscription model.

## Expenses

Operating expenses for the second quarter of fiscal 2015 decreased compared with the second quarter of fiscal 2014 primarily as a result of a decrease in general and administrative expenses and other expenses, net, partially offset by an increase in product development and enhancements expenses and an increase in selling and marketing expenses. For the second quarter of fiscal 2015, operating expenses included an impairment of \$13 million relating to capitalized software and other intangible assets within the Enterprise Solutions segment.

Operating expenses for the first half of fiscal 2015 decreased compared with the first half of fiscal 2014 primarily as a result of a decrease in costs associated with our Fiscal 2014 Plan. The decrease was also attributable to the timing of selling and marketing expenses and a decrease in personnel-related costs, partially offset by an increase in product development and enhancements expenses. We expect an increase in selling and marketing expenses in the third quarter of fiscal 2015 as a result of expenses associated with CA World '14, which is scheduled to occur in the third quarter of fiscal 2015.

## Costs of Licensing and Maintenance

Costs of licensing and maintenance include technical support, royalties, and other manufacturing and distribution costs. Costs of licensing and maintenance in the second quarter of fiscal 2015 were consistent with the second quarter of fiscal 2014. The increase in costs of licensing and maintenance in the first half of fiscal 2015 compared with the first half of fiscal 2014 was primarily attributable to an increase in cost of goods sold related to our SaaS hosting services and the distribution of enterprise solutions products.

## Cost of Professional Services

Cost of professional services consists primarily of our personnel-related costs associated with providing professional services and training to customers. Cost of professional services for the second quarter of fiscal 2015 was consistent with the second quarter of fiscal 2014. Cost of professional services for the first half of fiscal 2015 decreased compared with the first half of fiscal 2014.

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Operating margin for professional services decreased to 3% for the second quarter of fiscal 2015 compared with 9% for the second quarter of fiscal 2014. Operating margin for professional services decreased to 5% for the first half of fiscal 2015 compared with 10% for the first half of fiscal 2014. The decrease in operating margin for professional services was attributable to a number of factors, including the decrease in revenue and lower utilization rates for professional services personnel due to the decrease in the number of professional services engagements.

Operating margin for professional services does not include certain additional direct costs that are included within the Services segment (see “Performance of Segments” below). Expenses for the Services segment consist of cost of professional services and other direct costs included within selling and marketing and general and administrative expenses.

### Amortization of Capitalized Software Costs

Amortization of capitalized software costs consists of the amortization of both purchased software and internally generated capitalized software development costs. Internally generated capitalized software development costs relate to new products and significant enhancements to existing software products that have reached the technological feasibility stage.

Amortization of capitalized software costs for the second quarter and first half of fiscal 2015 increased compared with the second quarter and first half of fiscal 2014, respectively, as a result of an impairment recorded in the second quarter of fiscal 2015 of \$13 million relating to capitalized software and other intangible assets within the Enterprise Solutions segment (see Note E, “Goodwill, Capitalized Software and Other Intangible Assets,” in the Notes to the Condensed Consolidated Financial Statements for additional information). This increase was partially offset by a decrease in amortization expense from capitalized software costs that became fully amortized in recent periods.

Our product offerings and go-to-market strategy continue to evolve to include solutions and product suites that may be delivered either on-premise or via SaaS or cloud platforms. We expect our product offerings to continue to become available to customers at more frequent intervals than our historical release cycles. We have also adopted the Agile development methodologies, which are characterized by a more dynamic development process with more frequent revisions to a product release’s features and functions as the software is being developed. Due to these factors we have commenced capitalization much later in the development life cycle. As a result, product development and enhancements expenses have increased as the amount capitalized for internally developed software costs decreases. We no longer capitalize any significant amounts of internally developed software costs and as a result, future amortization of capitalized software costs is expected to decrease.

### Selling and Marketing

Selling and marketing expenses include the costs relating to our sales force, channel partners, corporate and business marketing and customer training programs. For the second quarter of fiscal 2015, the increase in selling and marketing expenses compared with the second quarter of fiscal 2014 was primarily attributable to a slight increase in commissions resulting from an increase in new sales, as well as an increase in promotion expenses in relation to our marketing efforts.

For the first half of fiscal 2015, the decrease in selling and marketing expenses compared with the first half of fiscal 2014 was primarily due to the unfavorable effect of \$15 million in expenses associated with CA World ‘13, our promotional and marketing conference for current and prospective customers, which occurred during the first quarter of fiscal 2014. We expect an increase in selling and marketing expenses in the third quarter of fiscal 2015 as a result of expenses associated with CA World ‘14, which is scheduled to occur in the third quarter of fiscal 2015.

### General and Administrative

General and administrative expenses include the costs of corporate and support functions, including our executive leadership and administration groups, finance, legal, human resources, corporate communications and other costs such as provisions for doubtful accounts. General and administrative expenses decreased for the second quarter and first half of fiscal 2015 compared with the second quarter and first half of fiscal 2014, respectively, primarily due to lower personnel-related expenses.

### Product Development and Enhancements

Product development and enhancements expenses increased in the second quarter of fiscal 2015 compared with the year-ago period primarily due to the decrease in capitalized software development costs in the second quarter of fiscal

2015 of \$8 million (see “Amortization of Capitalized Software Costs” above).

Product development and enhancements expenses increased in the first half of fiscal 2015 compared with the year-ago period primarily due to the decrease in capitalized software development costs in the first half of fiscal 2015 of \$31 million (see “Amortization of Capitalized Software Costs” above), partially offset by a decrease in personnel-related costs from a reduced headcount as a result of the Fiscal 2014 Plan.

We currently expect a decrease in capitalized development costs in the second half of fiscal 2015, which will have an unfavorable effect on product development and enhancements expenses for the second half of fiscal 2015, but to a lesser extent than the decrease in capitalized development costs in the first half of fiscal 2015 had on product development and enhancements expenses for the first half of fiscal 2015.

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## Depreciation and Amortization of Other Intangible Assets

For the second quarter and first half of fiscal 2015, depreciation and amortization expense decreased compared with the second quarter and first half of fiscal 2014, respectively, primarily due to a decrease in property and equipment depreciation expense.

## Other Expenses, Net

The summary of other expenses, net was as follows:

|                                                           | Second Quarter<br>Fiscal 2015<br>(dollars in millions) | Second Quarter<br>Fiscal 2014<br>(dollars in millions) |
|-----------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|
| Fiscal 2014 Plan                                          | \$12                                                   | \$2                                                    |
| Legal settlements                                         | 2                                                      | 6                                                      |
| Losses (gains) from foreign exchange derivative contracts | (17)                                                   | (6)                                                    |
| Losses from foreign exchange rate fluctuations            | 5                                                      | 13                                                     |
| Other miscellaneous items                                 | (1)                                                    | (1)                                                    |
| Total                                                     | \$1                                                    | \$14                                                   |
|                                                           | First Half<br>Fiscal 2015<br>(dollars in millions)     | First Half<br>Fiscal 2014<br>(dollars in millions)     |
| Fiscal 2014 Plan                                          | \$21                                                   | \$119 <sup>(1)</sup>                                   |
| Legal settlements                                         | 2                                                      | 16                                                     |
| Losses (gains) from foreign exchange derivative contracts | (12)                                                   | (15)                                                   |
| Losses from foreign exchange rate fluctuations            | 5                                                      | 20                                                     |
| Other miscellaneous items                                 | (1)                                                    | —                                                      |
| Total                                                     | \$15                                                   | \$140                                                  |

During the first quarter of fiscal 2015, we reclassified \$3 million of severance costs for the first quarter of fiscal (1)2014 to discontinued operations. Refer to Note B, “Divestitures,” in the Notes to the Condensed Consolidated Financial Statements for additional information.

In fiscal 2014, the Company’s Board of Directors approved and committed to the Fiscal 2014 Plan to better align its business priorities. The Company expects total costs of the Fiscal 2014 Plan to be approximately \$195 million. The total cumulative amount incurred to date for severance and facility exit costs under the Fiscal 2014 Plan is \$192 million. Refer to Note C, “Severance and Exit Costs,” in the Notes to the Condensed Consolidated Financial Statements for additional information.

## Interest Expense, Net

Interest expense, net for the second quarter of fiscal 2015 was consistent with the second quarter of fiscal 2014.

Interest expense, net for the first half of fiscal 2015 increased compared with the first half of fiscal 2014 as a result of additional interest expense relating to our debt offering that occurred during the second quarter of fiscal 2014. This was partially offset by an increase in interest income from higher cash and cash equivalent balances for the first quarter of fiscal 2015 compared with the first quarter of fiscal 2014.

## Income Taxes

Income tax expense for the second quarter and first half of fiscal 2015 was \$73 million and \$160 million, respectively, compared with income tax expense of \$101 million for the second quarter of fiscal 2014 and an income tax benefit of \$21 million for the first half of fiscal 2014. For the second quarter and first half of fiscal 2015, we recognized a discrete tax benefit of \$19 million resulting from the resolutions of uncertain tax positions upon the completion of the examination of our U.S. federal income tax returns for the tax years ended March 31, 2011 and 2012. For the first half of fiscal 2014, we recognized a net discrete tax benefit of \$179 million, resulting primarily from the resolutions of uncertain tax positions upon the completion of the examination of our U.S. federal income tax returns for the tax years ended March 31, 2005, 2006 and 2007. The examinations of our U.S. federal income tax returns have been concluded through fiscal 2012.

Our estimated annual effective tax rate, which excludes the impact of discrete items, for the first half of fiscal 2015 and fiscal 2014 was 29.2% and 29.2%, respectively. Legislative 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 2015, which are not considered in our estimated annual effective tax rate. While we do not currently view any such items as individually material to the results of our 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 2015 and we are anticipating a fiscal 2015 effective tax rate of approximately 30%.



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## Discontinued Operations

In the second quarter of fiscal 2015, we sold arcserve for \$170 million and recognized a gain on disposal of \$19 million, including tax expense of \$77 million. In the fourth quarter of fiscal year 2014, we identified our CA ERwin Data Modeling solution assets (ERwin) as available for sale.

The results of discontinued operations for the second quarter and first half of fiscal 2015 included revenue of \$15 million and \$46 million, respectively, and income from operations, net of taxes, of \$2 million and \$7 million, respectively. The results of discontinued operations for the second quarter and first half of fiscal 2014 included revenue of \$35 million and \$68 million, respectively, and income from operations, net of taxes, of \$9 million and \$14 million, respectively.

Refer to Note B, "Divestitures," in the Notes to the Condensed Consolidated Financial Statements for additional information.

## Performance of Segments

Our Mainframe Solutions and Enterprise Solutions segments comprise our software business organized by the nature of our 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 we sell to our customers.

Segment expenses do not include share-based compensation expense; amortization of purchased software; amortization of other intangible assets; certain foreign exchange derivative hedging gains and losses; costs associated with the Fiscal 2014 Plan; and other miscellaneous costs. We consider all costs of internally developed software as segment expenses in the period the costs are incurred, and as a result, we will add back capitalized internal software costs and exclude amortization of internally developed software costs previously capitalized from segment expenses. Segment financial information for the second quarter and first half of fiscal 2015 and fiscal 2014 was as follows:

| Mainframe Solutions      | Second Quarter<br>Fiscal 2015 <sup>(1)</sup> | Second Quarter<br>Fiscal 2014 <sup>(1)</sup> |
|--------------------------|----------------------------------------------|----------------------------------------------|
|                          | (dollars in millions)                        |                                              |
| Revenue                  | \$610                                        | \$624                                        |
| Expenses                 | 234                                          | 232                                          |
| Segment profit           | \$376                                        | \$392                                        |
| Segment operating margin | 62                                           | % 63                                         |
|                          |                                              |                                              |
| Mainframe Solutions      | First Half<br>Fiscal 2015 <sup>(1)</sup>     | First Half<br>Fiscal 2014 <sup>(1)</sup>     |
|                          | (dollars in millions)                        |                                              |
| Revenue                  | \$1,224                                      | \$1,243                                      |
| Expenses                 | 469                                          | 475                                          |
| Segment profit           | \$755                                        | \$768                                        |
| Segment operating margin | 62                                           | % 62                                         |

(1) Information presented excludes the results of our discontinued operations.

For the second quarter and first half of fiscal 2015, Mainframe Solutions revenue decreased compared with the year-ago period primarily due to insufficient revenue from prior period new sales to offset the decline in revenue contribution from renewals. There was also a favorable foreign exchange effect of \$3 million and \$6 million for the second quarter and first half of fiscal 2015, respectively.

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| Enterprise Solutions     | Second Quarter<br>Fiscal 2015 <sup>(1)</sup> | Second Quarter<br>Fiscal 2014 <sup>(1)</sup> |
|--------------------------|----------------------------------------------|----------------------------------------------|
|                          | (dollars in millions)                        |                                              |
| Revenue                  | \$378                                        | \$384                                        |
| Expenses                 | 327                                          | 337                                          |
| Segment profit           | \$51                                         | \$47                                         |
| Segment operating margin | 13                                           | % 12                                         |

| Enterprise Solutions     | First Half<br>Fiscal 2015 <sup>(1)</sup> | First Half<br>Fiscal 2014 <sup>(1)</sup> |
|--------------------------|------------------------------------------|------------------------------------------|
|                          | (dollars in millions)                    |                                          |
| Revenue                  | \$746                                    | \$762                                    |
| Expenses                 | 652                                      | 688                                      |
| Segment profit           | \$94                                     | \$74                                     |
| Segment operating margin | 13                                       | % 10                                     |

(1) Information presented excludes the results of our discontinued operations.

Enterprise Solutions revenue for the second quarter of fiscal 2015 decreased compared with the year-ago period primarily due to a decrease in revenue that is recognized on an up-front basis in the current period. This decline was primarily due to an increase in the percentage of our Enterprise Solutions new sales sold in connection with renewals compared with the year-ago period. In addition, within Enterprise Solutions there was an unfavorable effect from the decrease in revenue from certain mature product lines, partially offset by an increase in revenue from recently acquired products and sales of newly developed technologies.

Enterprise Solutions revenue for the first half of fiscal 2015 decreased compared with the year-ago period primarily due to a decrease in revenue that is recognized on an up-front basis in the current period. This decline was primarily due to an increase in the percentage of our Enterprise Solutions new sales sold in connection with renewals compared with the year-ago period. In addition, within Enterprise Solutions there was an unfavorable effect from the decrease in revenue from certain mature product lines, partially offset by an increase in revenue from recently acquired products and sales of newly developed technologies. Enterprise Solutions operating margin for the first half of fiscal 2015 increased compared with the year-ago period as a result of the timing of selling and marketing expenses and an overall decrease in personnel-related costs.

| Services                 | Second Quarter<br>Fiscal 2015 | Second Quarter<br>Fiscal 2014 |
|--------------------------|-------------------------------|-------------------------------|
|                          | (dollars in millions)         |                               |
| Revenue                  | \$91                          | \$97                          |
| Expenses                 | 89                            | 88                            |
| Segment profit           | \$2                           | \$9                           |
| Segment operating margin | 2                             | % 9                           |

| Services                 | First Half<br>Fiscal 2015 | First Half<br>Fiscal 2014 |
|--------------------------|---------------------------|---------------------------|
|                          | (dollars in millions)     |                           |
| Revenue                  | \$178                     | \$195                     |
| Expenses                 | 171                       | 178                       |
| Segment profit           | \$7                       | \$17                      |
| Segment operating margin | 4                         | % 9                       |

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Services revenue for the second quarter and first half of fiscal 2015 decreased compared with the second quarter and first half of fiscal 2014, respectively, primarily as a result of a decrease in the size and number of services engagements during the first quarter of fiscal 2015, including non-core engagements with government customers that are not directly related to our software product sales. We currently expect the percentage decline in services revenue to be greater than the percentage decline in total revenue for fiscal 2015 compared with fiscal 2014. This decline is primarily a result of the decrease in non-core services engagements with government customers that are not directly related to our software product sales. We are also refocusing on services engagements that drive new product sales. In addition, for the long-term, we expect new versions of our on-premise software to be easier to implement and a higher percentage of our business to shift to a SaaS-based model, which could potentially reduce the demand for our services engagements. Operating margin for our Services segment decreased in the second quarter and first half of fiscal 2015 compared with the second quarter and first half of fiscal 2014, respectively, as a result of a number of factors, including the decrease in revenue and lower utilization rates for services personnel due to the decrease in the number of services engagements.

Refer to Note O, "Segment Information," in the Notes to the Condensed Consolidated Financial Statements for additional information.

**Bookings****Total Bookings**

For the second quarter of fiscal 2015 and 2014, total bookings were \$749 million and \$844 million, respectively. The decrease in bookings was due to an expected year-over-year decrease in renewals within subscription and maintenance bookings, partially offset by an increase in professional services bookings. Total renewals decreased by a percentage in the low twenties primarily due to the timing of our renewals. This timing reflects the decrease in the value of contracts generally available for renewal compared with year-ago period.

Total new product sales, a subset of our total bookings, for the second quarter of fiscal 2015 increased by a mid-single-digit percentage compared with the year-ago period.

Mainframe Solutions new product sales and capacity growth can be inconsistent on both a quarterly and annual basis. We believe the period-over-period change in mainframe solutions new sales and capacity combined is a more appropriate measure of performance and, therefore, we provide only total mainframe solutions new sales information, which includes mainframe solutions capacity. For the second quarter of fiscal 2015, mainframe solutions new sales declined by a percentage in the low twenties. The decrease in mainframe solutions new sales was primarily due to the timing of our renewals and the composition of the renewal portfolio being more heavily weighted to enterprise solutions renewals in the quarter. Enterprise solutions new product sales increased by a percentage in the low teens as a result of increased sales in our Named customer accounts in all regions and, to a lesser extent, increased sales in our Platinum customer accounts in connection with renewals. This increase was primarily due to increases in sales of our Service Virtualization, API Management and APM products.

Total bookings in the second quarter of fiscal 2015 compared with the year-ago period decreased in the Europe, Middle East and Africa and Asia Pacific Japan regions, partially offset by an increase in the United States. The decrease in the Europe, Middle East and Africa and Asia Pacific Japan regions was primarily due to a decrease in the value of contracts generally available for renewal compared with the year-ago period.

Total new product sales increased in the United States, offset by decreases in the Europe, Middle East and Africa, Asia Pacific Japan and Latin America regions.

For the first half of fiscal 2015 and 2014, total bookings were \$1,473 million and \$1,640 million, respectively. The decrease in bookings was primarily due to a year-over-year decrease in renewals within subscription and maintenance bookings and professional services bookings. Total renewals decreased from the year-ago period by a percentage in the mid-teens primarily due to the timing of our renewals and the composition of our first half renewal portfolio compared with the year-ago period. Professional services bookings decreased primarily due to a decrease in the size and number of professional services engagements during the first quarter of fiscal 2015, including non-core engagements with government customers that are not directly related to our software product sales. Additionally, professional services bookings in the first quarter of fiscal 2014 were positively affected by several large engagements.

Total new product sales, a subset of our total bookings, for the first half of fiscal 2015 increased by a low-single-digit percentage compared with the first half of fiscal 2014. For the first half of fiscal 2015, enterprise solutions new sales increased by a high-single-digit percentage as a result of an increase in sales in our Platinum and Named customer accounts. Sales in our Platinum customer accounts increased in all regions except Latin America. Sales in our Named customer accounts increased in the United States and the Europe, Middle East and Africa region. Currently, we expect enterprise solutions new sales growth for the full year fiscal 2015 to be lower than the enterprise solutions new sales growth we saw in the first half of fiscal 2015 due to an unfavorable second half year-over-year comparison and an increasingly uncertain macro environment.

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For the first half of fiscal 2015, mainframe solutions new sales declined by a percentage in the mid-teens. The decrease in mainframe solutions new sales was primarily due to the composition of the renewal portfolio being more heavily weighted to enterprise solutions renewals. Overall, we expect our mainframe solutions revenue to be flat or decrease by a low-single-digit percentage over the medium term, which we believe is in line with the mainframe market.

Total new product sales increased in the United States and Asia Pacific Japan region, offset by a decrease in the Europe, Middle East and Africa and Latin America regions.

Total bookings in the first half of fiscal 2015 compared with the year-ago period decreased in all regions except the United States. The decrease in the Europe, Middle East and Africa and Asia Pacific Japan regions was primarily due to the decrease in the value of contracts generally available for renewal compared with the year-ago period.

Generally, quarters with smaller renewal inventories result in a lower level of bookings both because renewal bookings will be lower and, to a lesser extent, because renewals also remain an important opportunity for new product sales.

### Subscription and Maintenance Bookings

For the second quarter of fiscal 2015 and fiscal 2014, subscription and maintenance bookings were \$571 million and \$695 million, respectively. The decrease in subscription and maintenance bookings was primarily attributable to a decrease in our Mainframe Solutions renewals, partially offset by an increase in new product sales that are recognized within subscription and maintenance bookings.

During the second quarter of fiscal 2015, we executed a total of six license agreements with incremental contract values in excess of \$10 million each, for an aggregate contract value of \$217 million. During the second quarter of fiscal 2014, we executed a total of 12 license agreements with incremental contract values in excess of \$10 million each, for an aggregate contract value of \$320 million. Renewal bookings, as we report them, do not include new product and capacity sales and professional services arrangements. For the second quarter of fiscal 2015 renewal bookings decreased by a percentage in the low-twenties compared with the second quarter of fiscal 2014.

Mainframe solutions renewals decreased year-over-year, primarily due to the timing of our renewals and the composition of the renewal portfolio being more heavily weighted to enterprise solutions renewals in the quarter. Renewals can close before their scheduled renewal date for a number of reasons, including customer preference, customer needs for additional products or capacity, or our preference. The level of contracts closed prior to scheduled expiration dates and the reasons for such closings can vary from quarter to quarter. For the second quarter of fiscal 2015, our percentage renewal yield was in the low 90 percent range. We continue to expect the value of our fiscal 2015 renewal portfolio to decline by a high-single-digit percentage compared with fiscal 2014. Excluding the impact from a contract renewal with a large system integrator that occurred during the third quarter of fiscal 2014, we continue to expect the value of our fiscal 2015 renewal portfolio to be consistent with the value of our fiscal 2014 renewal portfolio. For the third quarter of fiscal 2015, we expect the value of our renewal portfolio to decline, while for the fourth quarter of fiscal 2015, we expect it to increase.

For the first half of fiscal 2015 and fiscal 2014, subscription and maintenance bookings were \$1,174 million and \$1,312 million, respectively. The decrease in subscription and maintenance bookings was primarily attributable to a decrease in our Mainframe Solutions renewals, partially offset by an increase in our enterprise solutions renewals and new product sales that are recognized within subscription and maintenance bookings.

Annualized subscription and maintenance bookings is an indicator that normalizes the bookings recorded in the current period to account for contract length. It is calculated by dividing the total value of all new subscription and maintenance license agreements entered into during a period by the weighted average subscription and license agreement duration in years for all such subscription and maintenance license agreements recorded during the same period. For the second quarter of fiscal 2015, annualized subscription and maintenance bookings decreased from \$209 million in the prior year period to \$184 million. The decrease in annualized subscription and maintenance bookings was primarily a result of the lower level of renewal bookings executed during the second quarter of fiscal 2015 compared with the second quarter of 2014. The weighted average subscription and maintenance license agreement duration in years decreased from 3.32 in the second quarter of fiscal 2014 to 3.10 in the second quarter of fiscal 2015.

Although each contract is subject to terms negotiated by the respective parties, we do not expect the weighted average subscription and maintenance agreement duration in years to change materially from historical levels for end-user contracts.

#### LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalent balances are held in numerous locations throughout the world, with 63% held in our subsidiaries outside the United States at September 30, 2014. Cash and cash equivalents totaled \$3,193 million at September 30, 2014, representing a decrease of \$59 million from the March 31, 2014 balance of \$3,252 million. During the first half of fiscal 2015, there was a \$185 million unfavorable translation effect from foreign currency exchange rates on cash held outside the United States in currencies other than the U.S. dollar.

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Although 63% of our cash and cash equivalents is held by foreign subsidiaries, we currently neither intend nor expect a need to repatriate these funds to the United States in the foreseeable future. We expect existing domestic cash, cash equivalents and cash flows from operations to be sufficient to fund our domestic operating activities and our investing and financing activities, including, among other things, the payment of regular quarterly dividends, compliance with our debt repayment schedules, repurchases of our common stock and the funding for capital expenditures, for at least the next 12 months and for the foreseeable future thereafter. In addition, we expect existing foreign cash, cash equivalents and cash flows from foreign operations to be sufficient to fund our foreign operating activities and investing activities, including, among other things, the funding for capital expenditures, acquisitions and research and development, for at least the next 12 months and for the foreseeable future thereafter.

### Sources and Uses of Cash

Under our subscription and maintenance agreements, customers generally make installment payments over the term of the agreement, often with at least one payment due at contract execution, for the right to use our software products and receive product support, software fixes and new products when available. The timing and actual amounts of cash received from committed customer installment payments under any specific agreement can be affected by several factors, including the time value of money and the customer's credit rating. Often, the amount received is the result of direct negotiations with the customer when establishing pricing and payment terms. In certain instances, the customer negotiates a price for a single up-front installment payment and seeks its own internal or external financing sources. In other instances, we may assist the customer by arranging financing on the customer's behalf through a third-party financial institution. Alternatively, we may decide to transfer our rights to the future committed installment payments due under the license agreement to a third-party financial institution in exchange for a cash payment. Once transferred, the future committed installments are payable by the customer to the third-party financial institution. Whether the future committed installments have been financed directly by the customer with our assistance or by the transfer of our rights to future committed installments to a third party, these financing agreements may contain limited recourse provisions with respect to our continued performance under the license agreements. Based on our historical experience, we believe that any liability that we may incur as a result of these limited recourse provisions will be immaterial.

Amounts billed or collected as a result of a single installment for the entire contract value, or a substantial portion of the contract value, rather than being invoiced and collected over the life of the license agreement, are reflected in the liability section of our Condensed Consolidated Balance Sheets as "Deferred revenue (billed or collected)." Amounts received from either a customer or a third-party financial institution that are attributable to later years of a license agreement have a positive impact on billings and cash provided by operating activities in the current period.

Accordingly, to the extent these collections are attributable to the later years of a license agreement, billings and cash provided by operating activities during the license's later years will be lower than if the payments were received over the license term. We are unable to predict with certainty the amount of cash to be collected from single installments for the entire contract value, or a substantial portion of the contract value, under new or renewed license agreements to be executed in future periods.

For the second quarter of fiscal 2015, gross receipts related to single installments for the entire contract value, or a substantial portion of the contract value, were \$167 million compared with \$91 million for the second quarter of fiscal 2014. For the first half of fiscal 2015, gross receipts related to single installments for the entire contract value, or a substantial portion of the contract value, were \$235 million compared with \$144 million for the first half of fiscal 2014.

In any quarter, we may receive payments in advance of the contractually committed date on which the payments were otherwise due. In limited circumstances, we may offer discounts to customers to ensure payment in the current period of invoices that have been billed, but might not otherwise be paid until a subsequent period because of payment terms. Historically, any such discounts have not been material.

Amounts due from customers from our subscription licenses are offset by deferred revenue related to these license agreements, leaving no or minimal net carrying value on our Condensed Consolidated Balance Sheets for those amounts. The fair value of these amounts may exceed or be less than this carrying value but cannot be practically assessed since there is no existing market for a pool of customer receivables with contractual commitments similar to

those owned by us. The actual fair value may not be known until these amounts are sold, securitized or collected. Although these customer license agreements commit the customer to payment under a fixed schedule, to the extent amounts are not yet due and payable by the customer, the agreements are considered executory in nature due to our ongoing commitment to provide maintenance and unspecified future software products as part of the agreement terms.



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We can estimate the total amounts to be billed from committed contracts, referred to as our “billings backlog,” and the total amount to be recognized as revenue from committed contracts, referred to as our “revenue backlog.” The aggregate amounts of our billings backlog and trade receivables already reflected in our Condensed Consolidated Balance Sheets represent the amounts we expect to collect in the future from committed contracts.

| (in millions)                                                   | September 30,<br>2014 <sup>(1)</sup> | March 31,<br>2014 <sup>(1)</sup> | September 30,<br>2013 <sup>(1)</sup> |
|-----------------------------------------------------------------|--------------------------------------|----------------------------------|--------------------------------------|
| Billings backlog:                                               |                                      |                                  |                                      |
| Amounts to be billed – current                                  | \$1,997                              | \$1,983                          | \$2,095                              |
| Amounts to be billed – noncurrent                               | 2,078                                | 2,365                            | 2,239                                |
| Total billings backlog                                          | \$4,075                              | \$4,348                          | \$4,334                              |
| Revenue backlog:                                                |                                      |                                  |                                      |
| Revenue to be recognized within the next 12 months – current    | \$3,230                              | \$3,500                          | \$3,325                              |
| Revenue to be recognized beyond the next 12 months – noncurrent | 3,581                                | 4,139                            | 3,828                                |
| Total revenue backlog                                           | \$6,811                              | \$7,639                          | \$7,153                              |
| Deferred revenue (billed or collected)                          | \$2,736                              | \$3,291                          | \$2,819                              |
| Total billings backlog                                          | 4,075                                | 4,348                            | 4,334                                |
| Total revenue backlog                                           | \$6,811                              | \$7,639                          | \$7,153                              |

(1) Information presented excludes the results of our discontinued operations.

Note: Revenue backlog includes deferred subscription and maintenance, professional services and software fees and other revenue.

We can also estimate the total cash to be collected in the future from committed contracts, referred to as our “Expected future cash collections,” by adding the total billings backlog to the trade accounts receivable, which represent amounts already billed but not collected, from our Condensed Consolidated Balance Sheets.

| (in millions)                          | September 30,<br>2014 <sup>(1)</sup> | March 31,<br>2014 <sup>(1)</sup> | September 30,<br>2013 <sup>(1)</sup> |
|----------------------------------------|--------------------------------------|----------------------------------|--------------------------------------|
| Expected future cash collections:      |                                      |                                  |                                      |
| Total billings backlog                 | \$4,075                              | \$4,348                          | \$4,334                              |
| Trade accounts receivable, net         | 511                                  | 800                              | 588                                  |
| Total expected future cash collections | \$4,586                              | \$5,148                          | \$4,922                              |

(1) Information presented excludes the results of our discontinued operations.

The decrease in billings backlog at September 30, 2014 compared with September 30, 2013 was primarily a result of the timing of billings from committed contracts that are scheduled to expire prior to fiscal 2016 and to a lesser extent an unfavorable effect of foreign exchange. The decrease in billings backlog at September 30, 2014 compared with March 31, 2014 was primarily a result of the typical higher level of bookings in the fourth quarter of a fiscal year compared with the second quarter of a fiscal year. Excluding the unfavorable effect of foreign exchange, billings backlog would have decreased 4% at September 30, 2014 compared with September 30, 2013 and would have decreased 4% compared with March 31, 2014.

The decrease in expected future cash collections at September 30, 2014 compared with September 30, 2013 and March 31, 2014 was primarily driven by the decrease in billings backlog, as described above, and a decrease in trade accounts receivable, net.

The decrease in total revenue backlog at September 30, 2014 compared with September 30, 2013 was primarily a result of the unfavorable effect of foreign exchange. The decrease in total revenue backlog at September 30, 2014 compared with March 31, 2014 was primarily a result of the typical higher level of bookings in the fourth quarter of a fiscal year compared with the second quarter of a fiscal year.

Excluding the unfavorable effect of foreign exchange, total revenue backlog would have decreased 3% at September 30, 2014 compared with September 30, 2013 and would have decreased 9% compared with March 31, 2014.

Revenue to be recognized in the next 12 months decreased 3% at September 30, 2014 compared with September 30, 2013. Excluding the unfavorable effect of foreign exchange, revenue to be recognized in the next 12 months would have decreased 1%. Revenue to be recognized in the next 12 months decreased 8% at September 30, 2014 compared with March 31, 2014. Excluding the unfavorable effect of foreign exchange, revenue to be recognized in the next 12 months would have decreased 6%. These decreases were the results of the factors described above.

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Generally, we believe that a change in the current portion of revenue backlog on a year-over-year basis is an indicator of future subscription and maintenance revenue performance due to the high percentage of our revenue that is recognized from license agreements that are already committed and being recognized ratably. We also believe that we would need to demonstrate multiple quarters of total new product and capacity sales growth while maintaining a renewal yield in the low 90 percent range before growth in the current portion of revenue backlog would be likely to occur.

## Net Cash Provided by Operating Activities - Continuing Operations

|                                                                   | Second Quarter of Fiscal |                     | Change      |
|-------------------------------------------------------------------|--------------------------|---------------------|-------------|
|                                                                   | 2015 <sup>(1)</sup>      | 2014 <sup>(1)</sup> | 2015 / 2014 |
|                                                                   | (in millions)            |                     |             |
| Cash collections from billings <sup>(2)</sup>                     | \$945                    | \$848               | \$97        |
| Vendor disbursements and payroll <sup>(2)</sup>                   | (704)                    | (685)               | (19)        |
| Income tax payments, net                                          | (151)                    | (51)                | (100)       |
| Other disbursements, net <sup>(3)</sup>                           | (24)                     | (39)                | 15          |
| Net cash provided by operating activities - continuing operations | \$66                     | \$73                | \$(7)       |

(1) Information presented excludes the results of our discontinued operations.

(2) Amounts include value added taxes and sales taxes.

(3) For the second quarter of fiscal 2015, amount includes \$16 million of payments associated with the Fiscal 2014 Plan, interest, prior period restructuring plans and miscellaneous receipts and disbursements. For the second quarter of fiscal 2014, amount includes \$39 million of payments associated with the Fiscal 2014 Plan, interest, prior period restructuring plans and miscellaneous receipts and disbursements.

|                                                                   | First Half of Fiscal |                     | Change      |
|-------------------------------------------------------------------|----------------------|---------------------|-------------|
|                                                                   | 2015 <sup>(1)</sup>  | 2014 <sup>(1)</sup> | 2015 / 2014 |
|                                                                   | (in millions)        |                     |             |
| Cash collections from billings <sup>(2)</sup>                     | \$2,033              | \$1,980             | \$53        |
| Vendor disbursements and payroll <sup>(2)</sup>                   | (1,537)              | (1,563)             | 26          |
| Income tax payments, net                                          | (181)                | (246)               | 65          |
| Other disbursements, net <sup>(3)</sup>                           | (83)                 | (95)                | 12          |
| Net cash provided by operating activities - continuing operations | \$232                | \$76                | \$156       |

(1) Information presented excludes the results of our discontinued operations.

(2) Amounts include value added taxes and sales taxes.

(3) For the first half of fiscal 2015, amount includes \$46 million of payments associated with the Fiscal 2014 Plan, interest, prior period restructuring plans and miscellaneous receipts and disbursements. For the first half of fiscal 2014, amount includes \$59 million of payments associated with the Fiscal 2014 Plan, interest, prior period restructuring plans and miscellaneous receipts and disbursements.

## Second Quarter Comparison Fiscal 2015 Versus Fiscal 2014

## Operating Activities:

Net cash provided by operating activities from continuing operations for the second quarter of fiscal 2015 was \$66 million, representing a decrease of \$7 million compared with the second quarter of fiscal 2014. Net cash provided by operating activities from continuing operations for the second quarter of fiscal 2014 was positively affected by a tax refund of \$70 million. Net cash provided by operating activities from continuing operations for the second quarter of fiscal 2015 was positively affected by an increase in cash collections of \$97 million. The increase in cash collections was primarily attributable to higher single installment collections of \$76 million during the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014.

## Investing Activities:

Net cash used in investing activities from continuing operations for the second quarter of fiscal 2015 was \$14 million compared with \$44 million for the second quarter of fiscal 2014. The decrease in net cash used in investing activities was primarily due to a decrease in capitalized software development costs of \$10 million, a decrease in purchases of property and equipment of \$9 million and a decrease in the purchases of short-term investments of \$9 million.



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Financing Activities:

Net cash used in financing activities from continuing operations for the second quarter of fiscal 2015 was \$67 million compared with net cash provided by financing activities from continuing operations of \$221 million for the second quarter of fiscal 2014. The change in net financing activities was primarily due to the receipt of proceeds of \$498 million from our August 2013 debt offering in the second quarter of fiscal 2014 and a decrease in proceeds from the exercise of common stock options of \$25 million, offset by a decrease in common share repurchases of \$151 million and an increase in net borrowings from our notional pooling arrangement of \$77 million compared with the year-ago period.

First Half Comparison Fiscal 2015 Versus Fiscal 2014

Operating Activities:

Net cash provided by operating activities from continuing operations for the first half of fiscal 2015 was \$232 million, representing an increase of \$156 million compared with the first half of fiscal 2014. Net cash provided by operating activities from continuing operations was favorably affected by a decrease in income tax payments of \$65 million, a decrease in vendor disbursements and payroll of \$26 million and an increase in cash collections of \$53 million, which includes an increase in single installment collections of \$91 million during the first half of fiscal 2015 compared with the first half of fiscal 2014. In addition, there was a favorable effect of lower cash payments associated with the Fiscal 2014 Plan of \$13 million.

Investing Activities:

Net cash used in investing activities from continuing operations for the first half of fiscal 2015 was \$46 million compared with \$20 million for the first half of fiscal 2014. The change in net cash used in investing activities was primarily due to the maturities of short-term investments during the first quarter of fiscal 2014 of \$184 million, offset by a decrease in cash paid for acquisitions and purchased software of \$113 million, a decrease in capitalized software development costs of \$35 million and a decrease in the purchase of short-term investments of \$9 million. The year-over-year change in our investment amounts is a result of a change in the allocation of our investment portfolio, which reduced our investments in instruments with maturities greater than 90 days.

Financing Activities:

Net cash used in financing activities from continuing operations for the first half of fiscal 2015 was \$207 million compared with net cash provided by financing activities from continuing operations of \$83 million for the first half of fiscal 2014. The change in net financing activities was primarily due to the receipt of proceeds of \$498 million from our August 2013 debt offering in the second quarter of fiscal 2014 and a decrease in proceeds from the exercise of common stock options of \$41 million, offset by a decrease in common share repurchases of \$150 million and an increase in net borrowings from our notional pooling arrangement of \$86 million compared with the year-ago period. We currently expect to repay our \$500 million 6.125% Senior Notes due December 2014 during the third quarter of fiscal 2015.

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## Debt Obligations

As of September 30, 2014 and March 31, 2014, our debt obligations consisted of the following:

|                                                                                                        | September 30,<br>2014 | March 31,<br>2014 |
|--------------------------------------------------------------------------------------------------------|-----------------------|-------------------|
|                                                                                                        | (in millions)         |                   |
| Revolving credit facility due June 2018                                                                | \$—                   | \$—               |
| 5.375% Senior Notes due December 2019                                                                  | 750                   | 750               |
| 6.125% Senior Notes due December 2014, net of unamortized premium from fair value hedge of \$2 and \$8 | 502                   | 508               |
| 2.875% Senior Notes due August 2018                                                                    | 250                   | 250               |
| 4.500% Senior Notes due August 2023                                                                    | 250                   | 250               |
| Other indebtedness, primarily capital leases                                                           | 16                    | 13                |
| Unamortized discount for Notes                                                                         | (5                    | ) (5              |
| Total debt outstanding                                                                                 | \$1,763               | \$1,766           |
| Less the current portion                                                                               | (510                  | ) (514            |
| Total long-term debt portion                                                                           | \$1,253               | \$1,252           |

## Other Indebtedness

We have available an unsecured and uncommitted multi-currency line of credit to meet short-term working capital needs for our subsidiaries operating outside the United States. We use guarantees and letters of credit issued by financial institutions to guarantee performance on certain contracts. At September 30, 2014 and March 31, 2014, \$47 million and \$49 million, respectively, of this line of credit was pledged in support of bank guarantees and other local credit lines. At September 30, 2014, none of these arrangements were drawn down by third parties. At March 31, 2014, less than \$1 million of these arrangements were drawn down by third parties.

We use a notional pooling arrangement with an international bank to help manage global liquidity. Under this pooling arrangement, we and our 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 us and our participating subsidiaries favorable interest terms on both. The activity under this cash pooling arrangement for the six months ended September 30, 2014 and 2013 was as follows:

|                                                                    | Six Months Ended<br>September 30, |          |
|--------------------------------------------------------------------|-----------------------------------|----------|
|                                                                    | 2014                              | 2013     |
|                                                                    | (in millions)                     |          |
| Total borrowings outstanding at beginning of period <sup>(1)</sup> | \$139                             | \$136    |
| Borrowings                                                         | 2,703                             | 1,609    |
| Repayments                                                         | (2,647                            | ) (1,639 |
| Foreign currency exchange effect                                   | (56                               | ) 20     |
| Total borrowings outstanding at end of period <sup>(1)</sup>       | \$139                             | \$126    |

(1) Included in "Accrued expenses and other current liabilities" in our Condensed Consolidated Balance Sheets.

For additional information concerning our debt obligations, refer to our Consolidated Financial Statements and Notes thereto included in our 2014 Form 10-K.

## Effect of Exchange Rate Changes

There was a \$185 million unfavorable impact to our cash balances in the first half of fiscal 2015 predominantly due to the strengthening of the U.S. dollar against the euro (8%), Israeli shekel (5%), the Australian dollar (6%) and the Brazilian real (7%).

There was a \$36 million favorable impact to our cash balances in the first half of fiscal 2014 predominantly due to the weakening of the U.S. dollar against the euro (6%) and the British pound sterling (7%), offset by the strengthening of the U.S. dollar against the Australian dollar (11%) and the Brazilian real (9%).



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### CRITICAL ACCOUNTING POLICIES AND BUSINESS PRACTICES

The preparation of financial statements in accordance with generally accepted accounting principles requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. We base our estimates on historical experience and various other assumptions that we believe are reasonable under the circumstances. Our estimates form the basis for making judgments about amounts and timing of revenue and expenses, the carrying values of assets and the recorded amounts of liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and the estimates may change if the underlying conditions or assumptions change. Information with respect to our critical accounting policies that we believe could have the most significant effect on our reported results or require subjective or complex judgments by management is contained in our 2014 Form 10-K under Management's Discussion and Analysis of Financial Condition and Results of Operations. At September 30, 2014, there was no material change to this information.

#### New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606), which 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. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for annual and interim periods in fiscal years beginning after December 15, 2016. Early application is not permitted. ASU 2014-09 is effective for our first quarter of fiscal year 2018 using either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. ASU 2014-09 is expected to have a significant impact on our revenue recognition policies and disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

### Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of risks, including foreign currency exchange rate fluctuations, interest rate changes and changes in the market value of our investments. In the normal course of business, we employ established policies and procedures to manage these risks including the use of derivative instruments. There have been no material changes in our financial risk management strategy or our portfolio management strategy, which is described in our 2014 Form 10-K, subsequent to March 31, 2014.

### Item 4: CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that these disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

#### Changes in Internal Control over Financial Reporting

Other than the change noted below, there were no changes in the Company's internal control over financial reporting, as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

In the second quarter of fiscal year 2015, the Company implemented and began using its global enterprise resource planning system to process accounting transactions in Asia and Pacific countries. The Company will continue to monitor and test this system as part of management's annual evaluation of internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS



Refer to Note I, “Commitments and Contingencies,” in the Notes to the Condensed Consolidated Financial Statements for information regarding certain legal proceedings, the contents of which are herein incorporated by reference.

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## Item 1A. RISK FACTORS

Current and potential stockholders should consider carefully the risk factors described in more detail in our 2014 Form 10-K. We believe that as of September 30, 2014, there has been no material change to this information. Any of these factors, or others, many of which are beyond our control, could materially adversely affect our business, financial condition, operating results, cash flow and stock price.

## Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth, for the months indicated, our purchases of common stock in the second quarter of fiscal 2015:

## ISSUER PURCHASES OF EQUITY SECURITIES

| Period                                 | Total Number<br>of Shares<br>Purchased              | Average<br>Price Paid<br>per Share | Total Number<br>of Shares<br>Purchased as<br>Part of Publicly<br>Announced Plans<br>or Programs | Approximate<br>Dollar Value of<br>Shares that<br>May Yet Be<br>Purchased Under<br>the Plans<br>or Programs |
|----------------------------------------|-----------------------------------------------------|------------------------------------|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
|                                        | (in thousands, except average price paid per share) |                                    |                                                                                                 |                                                                                                            |
| July 1, 2014 - July 31, 2014           | —                                                   | \$—                                | —                                                                                               | \$950,000                                                                                                  |
| August 1, 2014 - August 31, 2014       | —                                                   | \$—                                | —                                                                                               | \$950,000                                                                                                  |
| September 1, 2014 - September 30, 2014 | —                                                   | \$—                                | —                                                                                               | \$950,000                                                                                                  |
| Total                                  | —                                                   | —                                  | —                                                                                               |                                                                                                            |

On May 14, 2014, our Board of Directors approved a stock repurchase program that authorizes us to acquire up to \$1 billion of our common stock. We expect to complete the program in approximately three years. We expect to fund the program with available cash on hand and repurchase shares on the open market, through solicited or unsolicited privately negotiated transactions or otherwise from time to time based on market conditions and other factors. During the first half of fiscal 2015, we repurchased 1.7 million shares of our common stock for \$50 million. At September 30, 2014, we remained authorized to purchase \$950 million of our common stock under the current stock repurchase program.

## Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

## Item 4. MINE SAFETY DISCLOSURES

Not applicable.

## Item 5. OTHER INFORMATION

None.

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## Item 6. EXHIBITS

| Exhibit Number | Exhibit Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Incorporated by Reference |         |             | Filed or<br>Furnished<br>Herewith |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|---------|-------------|-----------------------------------|
|                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Form                      | Exhibit | Filing Date |                                   |
| 3.1            | Restated Certificate of Incorporation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 8-K                       | 3.3     | 3/9/06      |                                   |
| 3.2            | By-Laws of the Company, as amended.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 8-K                       | 3.1     | 2/28/07     |                                   |
| 10.1*          | Bring-down General Claims Release dated July 1, 2014 between the Company and George J. Fischer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                           |         |             | X                                 |
| 10.2*          | Schedules A, B and C (as amended effective July 30, 2014) to CA, Inc. Change in Control Severance Policy.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                           |         |             | X                                 |
| 12             | Statement of Ratios of Earnings to Fixed Charges.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                           |         |             | X                                 |
| 15             | Accountants' Acknowledgment Letter.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                           |         |             | X                                 |
| 31.1           | Certification of the Principal Executive Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                           |         |             | X                                 |
| 31.2           | Certification of the Principal Financial Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                           |         |             | X                                 |
| 32†            | Certification pursuant to §906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                           |         |             | X                                 |
| 101            | The following financial statements from CA, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014, formatted in XBRL (eXtensible Business Reporting Language):<br>(i) Condensed Consolidated Balance Sheets - September 30, 2014 (Unaudited) and March 31, 2014.<br>(ii) Unaudited Condensed Consolidated Statements of Operations - Three and Six Months Ended September 30, 2014 and 2013.<br>(iii) Unaudited Condensed Consolidated Statements of Comprehensive Income - Three and Six Months Ended September 30, 2014 and 2013.<br>(iv) Unaudited Condensed Consolidated Statements of Cash Flows - Six Months Ended September 30, 2014 and 2013.<br>(v) Notes to Condensed Consolidated Financial Statements - September 30, 2014. |                           |         |             | X                                 |
| *              | Management contract or compensatory plan or arrangement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                           |         |             |                                   |
| †              | Furnished herewith.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                           |         |             |                                   |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CA, INC.

By: /s/ Michael P. Gregoire  
Michael P. Gregoire  
Chief Executive Officer

By: /s/ Richard J. Beckert  
Richard J. Beckert  
Executive Vice President and Chief Financial Officer

Dated: October 23, 2014