

Part II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is listed on the New York Stock Exchange. The following table sets forth, for the fiscal quarters indicated, the quarterly high and low closing sales prices on the New York Stock Exchange:

	FISCAL YEAR 2007		FISCAL YEAR 2006	
	HIGH	LOW	HIGH	LOW
Fourth Quarter	\$ 27.21	\$ 23.32	\$ 29.36	\$ 26.75
Third Quarter	\$ 25.28	\$ 21.50	\$ 29.45	\$ 26.25
Second Quarter	\$ 24.28	\$ 19.10	\$ 29.37	\$ 26.24
First Quarter	\$ 27.19	\$ 20.55	\$ 29.28	\$ 26.80

On March 30, 2007, the closing price for our common stock on the New York Stock Exchange was \$25.91. At March 31, 2007 we had approximately 10,400 stockholders of record.

We have paid cash dividends each year since July 1990. For fiscal year 2005, we paid a dividend of \$0.08 per share. Beginning in fiscal year 2006 we increased our annual cash dividend to \$0.16 per share, which has been paid out in quarterly installments of \$0.04 per share as and when declared by the Board of Directors.

Purchases of Equity Securities by the Issuer

On June 29, 2006, our Board of Directors authorized a plan to repurchase up to \$2 billion shares of common stock in fiscal year 2007. This plan replaced the prior \$600 million common stock repurchase plan. We expected to finance the new plan through a combination of cash on hand and bank financing.

On August 15, 2006, we announced the commencement of a \$1 billion tender offer to repurchase outstanding common stock, at a price not less than \$22.50 and not greater than \$24.50 per share.

On September 14, 2006, the expiration date of the tender offer, we accepted for purchase 41,225,515 shares at a purchase price of \$24.00 per share, for a total price of approximately \$989 million, which excludes bank, legal and other associated charges. Upon completion of the tender offer, we retired all of the shares that were repurchased.

The Company did not repurchase any of its common stock in the fourth quarter of fiscal year 2007.

On May 23, 2007, the Company announced that as part of its previously authorized share repurchase plan of up to \$2 billion, it will repurchase up to \$500 million of its shares under an Accelerated Share Repurchase program (ASR). The Company anticipates that the ASR will be completed during the first half of fiscal year 2008. Any potential future repurchases will be considered by the Company in the normal course of business.

ITEM 6. SELECTED FINANCIAL DATA.

The information set forth below should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in this Form 10-K. Previously reported information contained in the Statements of Operations has been adjusted for the effects of the discontinued operations of Benit Company ("Benit"). The assets and liabilities for Benit, as well as the cash flows, were deemed immaterial for separate presentation as a discontinued operation in the Consolidated Balance Sheets and Consolidated Statements of Cash Flow. Refer to Note 2, "Acquisitions and Divestitures," of the Consolidated Financial Statements for additional information.

Statement of Operations Data

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	YEAR ENDED MARCH 31,				
	2007	2006	2005	2004	2003
Revenue	\$ 3,943	\$ 3,772	\$ 3,583	\$ 3,306	\$ 3,029
Income (loss) from continuing operations ¹	121	160	27	(89)	(374)
Basic income (loss) from continuing operations per share	0.22	0.28	0.05	(0.15)	(0.65)
Diluted income (loss) from continuing operations per share	0.22	0.27	0.05	(0.15)	(0.65)
Dividends declared per common share	0.16	0.16	0.08	0.08	0.08

Balance Sheet and Other Data

(IN MILLIONS)	MARCH 31,				
	2007	2006	2005	2004	2003
Cash provided by continuing operating activities	\$ 1,068	\$ 1,380	\$ 1,527	\$ 1,279	\$ 1,310
Working (deficit) capital ²	(613)	(619)	182	674	(292)
Total assets ²	10,585	10,520	11,455	10,882	11,446
Deferred subscription value ³	5,800	5,415	5,486	4,354	3,959
Long-term debt (less current maturities)	2,572	1,813	1,810	2,298	2,298
Stockholders' equity	3,690	4,754	5,070	4,947	4,598

¹ In fiscal year 2007, we incurred after-tax charges of approximately \$124 million for restructuring and other costs and approximately \$6 million for write-offs of in-process research and development costs due to our recent acquisitions. In fiscal year 2006, we incurred after-tax charges of approximately \$54 million for restructuring and other costs and an after-tax benefit of approximately \$5 million relating to the gain on the divestiture of assets that were contributed during the formation of Ingres Corp. We also incurred an after-tax charge of approximately \$18 million for write-offs of in-process research and development costs due to our recent acquisitions. In fiscal year 2005, we incurred an after-tax charge of approximately \$144 million related to the shareholder litigation and government investigation settlements, a tax expense charge of \$55 million related to the planned repatriation of \$500 million in cash under the American Jobs Creation Act of 2004, and an after-tax charge of approximately \$17 million for severance and other expenses in connection with a restructuring plan. Refer to "Shareholder Litigation and Government Investigation Settlement," "Income Taxes," and "Restructuring Charge" within Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information.

² Certain prior year balances have been reclassified to conform to the current year's presentation. Refer to Note 1, "Significant Accounting Policies — Reclassifications", in the Notes to the Consolidated Financial Statements for additional information.

³ See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", for details.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Introduction

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A) is intended to provide an understanding of our financial condition, change in financial condition, cash flow, liquidity and results of operations. As described in Note 2, "Acquisitions and Divestures" in the Notes to the Consolidated Financial Statements, in fiscal year 2007 we divested our majority interest in a subsidiary, Benit Company, formerly known as Liger Systems Co. Ltd. (Benit). The results of operations of Benit have been classified as a discontinued operation for all periods presented prior to the sale of Benit in November 2006. The assets and liabilities for Benit, as well as the cash flows, were deemed immaterial for separate presentation as a discontinued operation in the Consolidated Balance Sheets and Consolidated Statements of Cash Flow. The following discussion and analysis of financial condition and results of operations excludes the effect of the discontinued operation.

Business Overview

We are one of the world's leading independent enterprise management software companies. Our software and expertise enables customers to improve the management of their complex IT infrastructures across systems and networks, security and storage solutions.

Our technology solutions are comprehensive, integrated, real-time and open. They are not tied to any one platform, but instead make it possible for customers to manage all of the computers, networks and other technologies that comprise their computing environments. In turn, this helps customers better manage the investments they have made in IT rather than having to "rip and replace" them. As a result, customers gain flexibility. They can manage risk, manage cost, increase service and better align their IT investments with the needs of their organization.

We pursue a number of high-growth areas with our products, including network and systems management, security and storage. Our solutions are designed for both mainframe and distributed environments, each of which comprise about half of our revenue.

The CA Business Model

As described in greater detail in Item 1, "Business," of this Form 10-K, we license our software products directly to customers as well as through distributors, resellers and value-added resellers (VARs). We generate revenue from the following sources: license fees — licensing our products on a right-to-use basis; maintenance fees — providing customer technical support and product enhancements; and service fees — providing professional services such as product implementation, consulting and education services. The timing and amount of fees recognized as revenue during a reporting period are determined individually by license agreement, based on the agreement's duration and specific terms.

Under our business model, we provide customers with the flexibility to license software under month-to-month licenses or to fix their costs by committing to longer-term agreements. We also typically permit customers to change their software product mix as their business and technology needs change, which includes the right to receive software products in the future within defined product lines for no additional fee, commonly referred to as unspecified future software products. As a result of the right provided to our customers to receive unspecified future software products, as well as maintenance included during the term of the license, we are required under generally accepted accounting principles in the United States of America (GAAP) to recognize revenue from certain of our license agreements evenly on a monthly basis (also known as ratably) over the license term. Under agreements entered into prior to October 2000 (the prior business model), and as is common practice in the software industry, we did not offer our customers the right to receive unspecified future software products. As a result, for most license agreements entered into prior to October 2000, we were required under GAAP to record the present value of the license agreement as revenue at the time the license agreement was signed.

Under our business model, the portion of the contract value that has not yet been recognized creates what we refer to as deferred subscription value. Deferred subscription value is recognized as revenue evenly on a monthly basis over the duration of the license agreements. When recognized, this revenue is reported on the "Subscription revenue" line item on our

Consolidated Statements of Operations. If a customer pays for software prior to the recognition of revenue, the amount deferred is reported as a liability entitled "Deferred subscription revenue (collected)" on our Consolidated Balance Sheets.

Under our business model, a relatively small percentage of our revenue is recognized on a perpetual or up-front basis once all revenue recognition criteria are met in accordance with Statement of Position 97-2 "*Software Revenue Recognition*" (SOP 97-2) (see "— Critical Accounting Policies and Estimates" below for details), as is often the case with acquisitions prior to conversion to the ratable model. In such cases, these products are not sold with the right to receive unspecified future software products and maintenance is separately identifiable. We expect to continue to offer these types of licensing arrangements and therefore the amount of revenue we expect to recognize on an up-front basis may increase to the extent that such license agreements are not executed in close proximity to or in contemplation of other license agreements for which the right exists to receive unspecified future software products.

Not all of our active customer contracts have been transitioned to our business model, which has created what we refer to as a "Transition Period," during which the license agreements under our prior business model come up for renewal. During this Transition Period, as customer license agreements under our prior business model are renewed under our business model, we are building deferred subscription value related to that customer, from which subscription revenue will be amortized in future periods. Total deferred subscription value, and the associated subscription revenue that comes out of it, may increase over time as we continue to renew customer contracts that were executed under the prior business model, transition acquired company contracts to our business model, sell additional products and capacity to existing customers, and enter into new contracts with new customers. The favorable impact on subscription revenue from the conversion of contracts from our prior business model to our business model will decrease over time as the transition is completed. The remaining balance of unbilled installment receivables that were previously recognized as revenue under our prior business model was \$0.50 billion and \$0.66 billion at March 31, 2007 and March 31, 2006, respectively.

While the impact of changing from up-front revenue recognition under our prior business model to our current business model resulted in the postponement of the recognition of amounts that previously would have been recognized earlier under the up-front model, we generally did not change our cost structure.

Under both the prior business model and our current business model, customers often pay for the right to use our software products over the term of the associated software license agreement. We refer to these payments as installment payments. While the transition to the current business model has changed the timing of revenue recognition, in most cases it has not changed the timing of how we bill and collect cash from customers. As a result, our cash generated from operations has generally not been affected by the transition to the current business model over the past several years; and we do not expect in the future any significant changes in our cash generated from operations as a result of this transition.

Significant Business Events

The Government Investigation — DPA Concluded

In September 2004, the Company reached agreements with the United States Attorney's Office for the Eastern Division of New York (USAO) and the Northeast Region of the Securities and Exchange Commission (SEC) by entering into a Deferred Prosecution Agreement (DPA) with the USAO and consenting to the entry of a Final Consent Judgment (Consent Judgment) in a parallel proceeding brought by the SEC in the United States District Court for the Eastern District of New York (the Federal Court). The Federal Court approved the DPA on September 22, 2004 and entered the Consent Judgment on September 28, 2004. The agreements resolved the USAO and SEC investigations into certain of our past accounting practices, including our revenue recognition policies and procedures during certain periods prior to the adoption of our business model in October 2000, and obstruction of their investigations.

On May 15, 2007, the USAO submitted a motion to the Federal Court seeking dismissal of the charges relating to such accounting practices that had been filed against the Company in connection with the DPA. The USAO's motion papers cited the May 1, 2007 final report of the Independent Examiner and stated that CA has complied with the DPA.

On May 21, 2007, the Federal Court granted the motion, dismissing the charges; as a result of the dismissal and as provided in the DPA, the DPA thereupon expired and is thus concluded.

The Consent Judgment contains provisions enjoining the Company from violating certain provisions of the federal securities laws. Those provisions remain in effect. See Note 8, Commitments and Contingencies, in the notes to the Consolidated Financial Statements for additional information concerning the DPA, the Consent Judgment, and related matters.

Fiscal Year 2007 Acquisitions and Divestitures

In November 2006, we sold our interest in Benit for approximately \$3.3 million.

In September 2006, we acquired Cendura Corporation (Cendura), a privately held provider of IT service management and application service delivery solutions.

In July 2006, we acquired XOsoft, Inc. (XOsoft), a privately held company that provided continuous application availability solutions that minimize application downtime and accelerate time to recovery.

In June 2006, we acquired MDY Group International, Inc. (MDY), a provider of enterprise records management software and services.

In May 2006, we acquired Cybermation Inc. (Cybermation), a privately held provider of enterprise workload automation solutions.

Fiscal Year 2006 Acquisitions and Divestitures

In March 2006, we acquired the common stock of Wily Technology, Inc. (Wily), a provider of enterprise application management solutions.

In December 2005, we acquired Control F-1 Corporation (Control F-1) a privately held provider of support automation solutions that automatically prevent, detect and repair end-user computer problems before they disrupt critical IT services.

In December 2005, we sold our wholly-owned subsidiary MultiGen-Paradigm, Inc. (MultiGen). MultiGen was a provider of real-time, end-to-end 3D solutions for visualizations, simulations and training applications used for both civilian and government purposes.

In November 2005, we announced an agreement with Garnett & Helfrich Capital, a private equity firm, to create an independent corporate entity, Ingres Corporation. We divested our Ingres open source database unit into Ingres Corporation, in which Garnett & Helfrich Capital is the majority shareholder and we hold a minority position.

In October 2005, we acquired iLumin Software Services, Inc. (iLumin), a privately held provider of enterprise message management and archiving software.

In July 2005, we acquired Niku Corporation (Niku), a provider of information technology management and governance solutions.

In June 2005, we acquired Concord Communications, Inc. (Concord), a provider of network service management software solutions.

Fiscal Year 2005 Acquisitions

In November 2004, we acquired Netegrity, Inc. (Netegrity), a provider of business security software solutions in the area of access and identity management.

In August 2004, we acquired PestPatrol, Inc. (PestPatrol), a privately held provider of anti-spyware and security solutions.

Performance Indicators

Management uses several quantitative performance indicators to assess our financial results and condition. Each provides a measurement of the performance of our business model and how well we are executing our plan.

Our predominantly subscription-based business model is unique among our competitors in the software industry and it may be difficult to compare our results for many of our performance indicators with those of our competitors. The following is a summary of the principal quantitative performance indicators that management uses to review performance:

FOR THE YEAR ENDED MARCH 31, (IN MILLIONS)	2007	2006	CHANGE	PERCENT CHANGE
Subscription revenue	\$ 3,067	\$ 2,837	\$ 230	8%
Total revenue	\$ 3,943	\$ 3,772	\$ 171	5%
Subscription revenue as a percent of total revenue	78%	75%	3%	4%
Deferred subscription value	\$ 5,800	\$ 5,415	\$ 385	7%
New deferred subscription value (direct)	\$ 3,107	\$ 2,610	\$ 497	19%
New deferred subscription value (indirect)	\$ 183	\$ 195	\$ (12)	(6)%
Weighted average license agreement duration in years (direct)	3.29	3.03	0.26	9%
Cash provided by continuing operating activities	\$ 1,068	\$ 1,380	\$ (312)	(23)%
Income from continuing operations, net of taxes	\$ 121	\$ 160	\$ (39)	(24)%

AS OF MARCH 31, (IN MILLIONS)	2007	2006	CHANGE	PERCENT CHANGE
Total cash, cash equivalents, and marketable securities	\$ 2,280	\$ 1,865	\$ 415	22%
Total debt	\$ 2,583	\$ 1,816	\$ 767	42%

Note — previously reported information has been reclassified to exclude discontinued operations

Analyses of our performance indicators, including general trends, can be found in the “Results of Operations” and “Liquidity and Capital Resources” sections of this MD&A. The performance indicators discussed below are those that we believe are unique due to our subscription-based business model.

Subscription Revenue — Subscription revenue is the ratable revenue recognized in a period from amounts previously recorded as deferred subscription value. If the weighted average life of our license agreements remains constant, an increase in deferred subscription value will ultimately result in an increase in subscription revenue.

Deferred Subscription Value — Under our business model, the portion of the license contract value that has not yet been earned creates what we refer to as deferred subscription value. As license revenue from “term-based” subscription licenses is ratably recognized (evenly on a monthly basis), it is reported as “Subscription revenue” on our Consolidated Statements of Operations, and the deferred subscription value attributable to that contract is correspondingly reduced.

Committed installment payments due under software license agreements are not always paid in equal annual installments over the life of a license agreement. If a customer pays for software prior to the recognition of revenue, the amount is reported as a liability entitled “Deferred subscription revenue (collected)” on our Consolidated Balance Sheets. The amount collected from a customer under a license agreement for the next twelve months but not yet recognized as revenue is reported as a liability entitled “Deferred subscription revenue (collected) — current” on our Consolidated Balance Sheets. The amount collected under a license agreement for periods subsequent to the next twelve months, which will be recognized as revenue on a monthly basis only in those future years, is reported as a liability entitled “Deferred subscription revenue (collected) — noncurrent” on our Consolidated Balance Sheets. The increase or decrease in payments by customers attributable to subsequent fiscal periods is reported as an operating activity entitled “Deferred subscription revenue (collected) — current” and “Deferred subscription revenue (collected) — noncurrent” in our Consolidated Statements of Cash Flows.

If we transfer our financial interest in future committed installments under a license agreement to a third party financing institution, for which revenue has not yet been recognized, we record the liability associated with the receipt of the cash as “Financing obligations (collected)” on our Consolidated Balance Sheets. The amounts received from third party financing institutions are classified as either current or non-current, depending upon when amounts are expected to be payable under the license agreement with the customer. When the payment is due from the customer to the third party, we relieve our liability to the financing institution and recognize the previously financed amount as “Deferred subscription revenue (collected)” on our Consolidated Balance Sheets. The increase or decrease in financing obligations is reported as an

operating activity entitled “Financing obligations (collected) — current” and “Financing obligations (collected) — noncurrent” in our Consolidated Statements of Cash Flows.

Amounts received in the current period that are attributable to later years of a license agreement from either a customer or third party financing institution have a positive impact in the current period on billings and cash provided by continuing operating activities. Accordingly, to the extent such 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.

New Deferred Subscription Value — New deferred subscription value represents the total incremental value (contract value) of software licenses sold in a period, which will be accounted for under our subscription model of revenue recognition. In the second quarter of fiscal year 2005, we began offering more flexible license terms to our channel partners’ end users, necessitating ratable recognition of revenue for the majority of our indirect business. Prior to July 1, 2004, such channel license revenue had been recorded up-front on a sell-through basis (when a distributor, reseller, or VAR sold the software product to its customers) and reported on the “Software fees and other” line item on the Consolidated Statements of Operations. New deferred subscription value typically excludes the value associated with up-front or “perpetual” based licenses, maintenance-only license agreements, license-only indirect sales, and professional services arrangements and does not include that portion of bundled maintenance or unamortized discounts that are converted into subscription revenue upon renewal of prior business model contracts.

New deferred subscription value is the aggregate amount we expect to collect from our customers over the terms of the underlying subscription licenses based upon contractual license agreements entered into during a reporting period. This amount is recognized as subscription revenue ratably over the applicable software license term. The license agreements that contribute to new deferred subscription value represent binding payment commitments by customers over periods generally up to three years. Typically, our new deferred subscription value increases in each consecutive fiscal quarter, with the fourth quarter being the strongest. However, for fiscal year 2007, new deferred subscription value was highest in our third quarter principally due to growth in sales of new products and services, an improved process for the management of contract renewals, the benefits achieved from the realignment of our sales force earlier in the year, and an increase in the volume, length and dollar amounts of large contracts during the third quarter. Since new deferred subscription value is impacted by the volume and dollar amount of contracts coming up for renewal and the amount of early contract renewals, the change in new deferred subscription value, relative to previous periods, does not necessarily correlate to the change in billings or cash receipts, relative to previous periods. The contribution to current period revenue from new deferred subscription value from any single license agreement is relatively small, since revenue is recognized ratably over the applicable license agreement term.

Weighted Average License Agreement Duration in Years — The weighted average license agreement duration in years for our direct business reflects the duration of all software licenses executed during a period, weighted to reflect the contract value of each individual software license. The weighted average duration is impacted by the number and dollar amounts of contracts coming up for renewal, and therefore may change from period to period and will not necessarily correlate to the prior year periods. The annual weighted average duration of 3.29 and 3.03 years for the fiscal years 2007 and 2006, respectively, were derived from the following quarterly new deferred subscription value amounts and quarterly weighted average durations in years from our direct business:

	FISCAL YEAR 2007		FISCAL YEAR 2006	
	NEW DEFERRED SUBSCRIPTION VALUE FROM DIRECT SALES (IN MILLIONS)	WEIGHTED AVERAGE DURATION IN YEARS	NEW DEFERRED SUBSCRIPTION VALUE FROM DIRECT SALES (IN MILLIONS)	WEIGHTED AVERAGE DURATION IN YEARS
Fourth Quarter	\$ 892	3.15	\$ 969	2.89
Third Quarter	1,329	3.74	730	3.46
Second Quarter	498	2.98	575	2.92
First Quarter	388	2.48	336	2.70
	\$ 3,107	3.29	\$ 2,610	3.03

Results of Operations

Revenue

The following table presents the percentage of total revenue and the percentage of period-over-period dollar change for the revenue line items in our Consolidated Statements of Operations for the fiscal years ended March 31, 2007, 2006, and 2005. These comparisons of financial results are not necessarily indicative of future results.

	FISCAL YEAR 2007			FISCAL YEAR 2006		
	PERCENTAGE OF TOTAL REVENUE		PERCENTAGE OF DOLLAR CHANGE	PERCENTAGE OF TOTAL REVENUE		PERCENTAGE OF DOLLAR CHANGE
	2007	2006	2007/2006	2006	2005	2006/2005
Revenue:						
Subscription revenue	78%	75%	8%	75%	72%	10%
Maintenance	10%	11%	(6)%	11%	12%	(3)%
Software fees and other	3%	4%	(33)%	4%	7%	(37)%
Financing fees	—%	1%	(42)%	1%	2%	(42)%
Professional services	9%	9%	11%	9%	7%	31%
Total revenue	100%	100%	5%	100%	100%	5%

Note — Fiscal year 2006 previously reported information has been reclassified to exclude discontinued operations

Total Revenue

Total revenue for the fiscal year ended March 31, 2007 increased \$171 million, or 5%, from the fiscal year ended March 31, 2006, to \$3.94 billion. As more fully described below, the increase was primarily due to growth in subscription revenue and professional services revenue. These increases were partly offset by declines in software fees and other revenue, maintenance, and financing fee revenue. Total revenue was favorably impacted by foreign exchange of approximately \$74 million for the fiscal year ended March 31, 2007.

Total revenue for the fiscal year ended March 31, 2006 increased \$189 million from the fiscal year ended March 31, 2005, to \$3.77 billion. As more fully described below, the increase was partially attributable to higher subscription revenue associated with the continued transition to our business model and to the sales of recently acquired products which contributed approximately \$125 million of separately identifiable revenue. These increases were partially offset by decreases in maintenance and financing fee revenue, resulting from the way these items are accounted for under our business model, as well as by lower revenue in our indirect or channel business due to the conversion to our subscription model since the beginning of the second quarter of fiscal year 2005. Prior to that time, the majority of revenue from the indirect business was recognized on an up-front basis. Total revenue for fiscal year 2006 was negatively impacted by foreign exchange of approximately \$17 million, as compared with fiscal year 2005.

Subscription Revenue

Subscription revenue represents the portion of revenue ratably recognized on software license agreements entered into under our business model. Some of the licenses recorded between October 2000, when our business model was implemented, and the third quarter of fiscal year 2007 continued to contribute to subscription revenue on a monthly, ratable basis. As a result, subscription revenue for the fiscal year ended March 31, 2007 includes the ratable recognition of contracts recorded in the fiscal year 2007, as well as contracts and related renewals recorded between October 2000 and the third quarter of fiscal year 2007, depending on the contract length. As we reach maturity of our model and based upon the timing of remaining prior business model contract renewals, the impact of the transition to our business model on revenues will decline.

Under the prior business model, maintenance revenue was separately identified and was reported on the “Maintenance” line item in the Consolidated Statements of Operations. Under our business model, maintenance that is bundled with product sales is not separately identified in our customers’ license agreements and therefore is included within the “Subscription revenue” line item in the Consolidated Statements of Operations. Under the prior business model, financing fee revenue was also separately identified in the Consolidated Statements of Operations. Since the adoption of our business model, financing

fee revenue has declined substantially as the majority of contracts entered are recognized as subscription revenue over the term of the contract. We are not able to quantify the impact that each of these factors had on subscription revenue.

Subscription revenue for fiscal year 2007 increased \$230 million, or 8%, from the comparable prior year period to \$3.07 billion. Sales made directly to our end-user customers, which we define as our direct business, contributed approximately \$2.84 billion to subscription revenue compared to \$2.68 billion in the comparable prior year. The increase was primarily due to growth in new deferred subscription value from the sale of solutions in the areas of infrastructure management, business service optimization and security management led by the sale of acquired products. In addition, subscription revenue was favorably impacted by the manner in which we record maintenance revenue under our business model, as described above, as well as favorable impacts from foreign exchange. Sales made through our channel partners, which we define as our indirect business, contributed approximately \$232 million to subscription revenue compared to \$153 million in the comparable prior year period. The increase was principally due to the inclusion of approximately \$46 million of subscription revenue related to VARs that were previously classified as part of our direct business in the prior fiscal year, as well as favorable impacts from foreign exchange and the continued transition of indirect revenue to the ratable model, which began in the second quarter of fiscal year 2005.

During fiscal year 2007, we added new deferred subscription value related to our direct business of \$3.11 billion as compared with \$2.61 billion, for fiscal year 2006. The increase in new deferred subscription value in our direct business was primarily attributable to the growth in sales of new products and services, an improved process for the management of contract renewals, the benefits achieved from the realignment of our sales force earlier in the year, and an increase in the number, length and dollar amounts of large contracts during the fiscal year, which resulted in an increase in the weighted average contract length. During fiscal year 2007, we renewed fourteen license agreements with contract values in excess of \$25 million each, for an aggregate contract value of approximately \$729 million. This is compared to the prior fiscal year, when seven license agreements were executed with contract values in excess of \$25 million each, for an aggregate contract value of approximately \$259 million. With respect to our indirect business, for fiscal year 2007, we added new deferred subscription value of \$183 million, as compared with \$195 million for fiscal year 2006.

The weighted average duration of license agreements executed in fiscal years 2007 and 2006 for our direct business was 3.29 and 3.03 years, respectively. The increase was attributable to an increase in the number and amounts of contracts executed with contract terms longer than the historical averages. During fiscal year 2007, there were twenty-one contracts with durations of five years or longer, representing approximately \$531 million of new deferred subscription value. In contrast, there were eleven such contracts executed in fiscal year 2006, representing approximately \$190 million of new deferred subscription value. One contract executed in the third quarter of fiscal year 2007 had a contract term of approximately seven years and represented new deferred subscription value greater than \$130 million.

Subscription revenue for fiscal year 2006 increased \$251 million from fiscal year 2005, to \$2.84 billion. This increase was predominantly due to a \$118 million increase in ratably recognized revenue from the indirect business plus the increase in subscription revenue as a result of renewals of contracts whose revenue was previously recognized on an up-front basis or as part of maintenance fees under our prior business model.

During fiscal year 2006, we added new deferred subscription value related to our direct business of \$2.61 billion, as compared with \$3.49 billion, for fiscal year 2005. The \$0.88 billion decrease in new deferred subscription value was primarily due to the decrease in early contract renewals resulting from a change in the fiscal year 2006 commission plan that transitioned away from a total bookings based compensation structure. In addition, we signed contract extensions with two customers in the fourth quarter of fiscal year 2005 that added approximately \$390 million in the aggregate to new deferred subscription value in the period. We also recorded \$195 million of new deferred subscription value for fiscal year ended March 31, 2006 related to our indirect business, which increased 35% from the \$144 million added in the prior fiscal year.

The weighted average duration of license agreements executed in fiscal years 2006 and 2005 for our direct business was 3.03 years and 3.10 years, respectively. The decline was primarily attributable to one large contract executed in the fourth quarter of fiscal year 2005 that represented approximately \$300 million in new deferred subscription value and had a term of four years. The decline was partly offset by an increase in the dollar amounts of contracts executed with contract terms longer than the historical averages. During fiscal year 2006, there were eleven contracts with durations of five years or longer,

representing approximately \$190 million of new deferred subscription value. In contrast, there were ten such contracts executed in fiscal year 2005, representing approximately \$278 million of new deferred subscription value.

Annualized new deferred subscription value represents the annual amount of new deferred subscription value to be recognized as subscription revenue from our direct business in future years based on the weighted average duration of the underlying contracts. It is calculated by dividing the total value of all new term-based software license agreements entered into during a period in our direct business by the weighted average life of all such license agreements recorded during the same period. The annualized new deferred subscription value for fiscal year 2007 increased approximately \$83 million, or 10%, as compared with fiscal year 2006, to \$944 million. The annualized new deferred subscription value during fiscal year 2006 decreased approximately \$266 million, or 24% from the comparable prior fiscal year to approximately \$861 million.

Maintenance

Maintenance revenue for fiscal year 2007 decreased \$24 million, or 6%, from the comparable prior fiscal year to \$391 million. The decline in maintenance revenue was primarily attributable to our transition to, and the increased number of license agreements under, our business model, where maintenance revenue, bundled along with license revenue, is reported on the "Subscription revenue" line item on the Consolidated Statements of Operations. The combined maintenance and license revenue on these types of license agreements is recognized on a monthly basis ratably over the term of the agreement. We are unable to quantify the impact that our transition to our business model had on maintenance revenue since maintenance bundled with software licenses is not separately identified. The decline in maintenance revenue was partly offset by separately identifiable maintenance revenue recorded from acquisitions completed subsequent to the fourth quarter of fiscal year 2006 of approximately \$40 million. Maintenance revenue attributable to the indirect business increased \$13 million compared to comparable prior fiscal year to \$67 million.

Maintenance revenue for the fiscal year ended March 31, 2006 decreased \$11 million, or 3%, from the comparable prior year to \$415 million. As noted above, the decline was principally a result of our transition to, and increased number of license agreements under, our business model, where maintenance revenue is bundled along with license revenue, and is reported on the "Subscription revenue" line item in the Consolidated Statements of Operations. We cannot quantify the impact that the transition to our business model had on maintenance revenue since maintenance bundled with software licenses under our business model is not separately identifiable. Maintenance revenue from our indirect business declined \$5 million from the comparable prior period to \$54 million. Partially offsetting these declines was an increase of \$49 million associated with acquisitions completed prior to March 31, 2006.

Software Fees and Other

Software fees and other revenue consists of revenue related to distribution and original equipment manufactures (OEM) channel partners (sometimes referred to as our "indirect" or "channel" revenue) that has been recorded on an up-front sell-through basis, certain revenue associated with acquisitions prior to the transition to our business model, revenue from joint ventures, and other revenue. Our historical practice has been that revenue from acquisitions is initially recorded on the acquired company's systems, generally under a perpetual or up-front model, and is typically converted to our ratable model within the first fiscal year after the acquisition. As new contracts are entered into that contain the right to receive unspecified future software products, revenue is recognized ratably as subscription revenue on a monthly basis over the term of the agreement. For fiscal year 2007, the Company recorded approximately \$40 million of revenue on an up-front basis relating to acquisitions that occurred subsequent to the fourth quarter of fiscal year 2006. We expect that a portion of this revenue will continue to be recorded on an up-front basis as "Software fees and other" which will initially result in higher total revenue for the period than if this revenue had been transitioned to our ratable subscription model in accordance with our historical practice.

For the fiscal year ended March 31, 2007, software fees and other revenue for fiscal year 2007 decreased \$52 million, or 33%, from the comparable prior year period to \$108 million. The decline is principally due to lower revenue from acquisitions which had transitioned to our business model, as well as the divestiture of certain business units and joint ventures such as Ingres Corporation and MultiGen.

For the fiscal year ended March 31, 2006, software fees and other revenue decreased \$94 million from the fiscal year ended March 31, 2005, to \$160 million. This reduction is due to a \$53 million decrease in prior business model revenue, as ratable revenue from our business model contracts was recorded as subscription revenue in the Consolidated Statements of Operations. Additionally, we experienced a decrease in indirect revenue associated with the transition to our subscription model in July 2004 which represented a \$50 million reduction from the prior year as more revenue was deferred as these indirect contracts were renewed. These decreases were offset by other revenue increases of approximately \$9 million.

Financing Fees

Financing fee revenue results from the initial discounting to present value of product sales with extended payment terms under the prior business model, which required up-front revenue recognition. This discount initially reduced the related installment accounts receivable and is referred to as "Unamortized discounts." The related unamortized discount is amortized over the life of the applicable license agreement and is reported as financing fee revenue. Under our business model, we have not recorded additional unamortized discounts since we generally do not recognize revenue on an up-front basis for sales of products with extended payment terms. As expected, for fiscal years 2007 and 2006, financing fee revenue continued to decline, reflecting a decrease of \$19 million and \$32 million, respectively, from the prior fiscal years to \$26 million and \$45 million, respectively. The decrease in financing fee revenue for all these years is attributable to the discontinuance of offering license agreements under the prior business model and is expected to decline to zero over the next several years.

Professional Services

Professional services revenue for fiscal year 2007 increased \$36 million, or 11%, from fiscal year 2006 to \$351 million. The increase was primarily attributable to professional services engagements relating to product implementations associated with products acquired subsequent to the fourth quarter of fiscal year 2006 of approximately \$13 million, growth in security software engagements which utilize Access Control and Identity Management solutions and project and portfolio management services tied to Clarity solutions.

Professional services revenue for fiscal year 2006 increased \$75 million, or 31%, from fiscal year 2005 to \$315 million. The increase was largely attributable to the same factors noted above. Professional service engagements relating to acquired companies resulted in approximately \$23 million of additional revenue for fiscal year 2006 as compared to the prior fiscal year.

Total Revenue by Geography

The following table presents the amount of revenue earned from sales to unaffiliated customers in the United States and international regions and corresponding percentage changes for the fiscal years ended March 31, 2007, 2006 and 2005. These comparisons of financial results are not necessarily indicative of future results.

(IN MILLIONS)	FISCAL YEAR 2007					FISCAL YEAR 2006				
	2007	%	2006	%	CHANGE	2006	%	2005	%	CHANGE
United States	\$ 2,131	54	\$ 2,006	53	6%	\$ 2,006	53	\$ 1,878	52	7%
International	1,812	46	1,766	47	3%	1,766	47	1,705	48	4%
	\$ 3,943	100	\$ 3,772	100	5%	\$ 3,772	100	\$ 3,583	100	5%

Note — previously reported information has been reclassified to exclude discontinued operations

For fiscal year 2007, revenue in the United States increased by approximately \$125 million, or 6%, as compared with the prior fiscal year, and was primarily attributable to growth from acquisitions and higher subscription revenue resulting from an increase in new deferred subscription value. For fiscal year 2007, International revenue decreased by approximately \$28 million, which was offset by a favorable impact from foreign exchange of approximately \$74 million.

For fiscal year 2006, as compared to fiscal year 2005, the increase in revenue from the United States was primarily attributable to sales of products related to companies acquired during fiscal year 2006, an increase in new deferred subscription value in prior periods as well as an increase in professional services revenue, partially offset by decreases in revenue from maintenance, finance fees and software fees and other revenues. International revenue for fiscal year 2006 increased \$61 million, or 4%, as compared with fiscal year 2005, primarily due to increased new deferred subscription value in prior

periods associated with our European business partially offset by an unfavorable foreign exchange impact of approximately \$17 million.

Price changes and inflation did not have a material impact in fiscal years 2007, 2006 or 2005.

Expenses

The following table presents expenses as a percentage of total revenue and the percentage of period-over-period dollar change for the expense line items in our Consolidated Statements of Operations for the fiscal years ended March 31, 2007, 2006, and 2005. These comparisons of financial results are not necessarily indicative of future results.

	PERCENTAGE OF TOTAL REVENUE			PERCENTAGE OF DOLLAR CHANGE	
	2007	2006	2005	2007/2006	2006/2005
Operating expenses					
Amortization of capitalized software costs	9%	12%	12%	(21)%	—
Cost of professional services	8%	7%	6%	24%	18%
Selling, general, and administrative	42%	42%	37%	5%	18%
Product development and enhancements	18%	18%	20%	2%	(2)%
Commissions, royalties, and bonuses	9%	10%	9%	(14)%	16%
Depreciation and amortization of other intangible assets	4%	4%	4%	10%	3%
Other gains, net	—	—	—	13%	—
Restructuring and other	5%	2%	1%	128%	214%
Charge for in-process research and development cost	—	—	—	—	—
Shareholder litigation and government investigation settlements	—	—	7%	—	(100)%
Total expenses before interest and taxes	95%	96%	96%	3%	5%
Interest expense, net	2%	1%	3%	46%	(61)%

Note — amounts may not add to their respective totals due to rounding

Note — previously reported information has been reclassified to exclude discontinued operations

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 are related to new products and significant enhancements to existing software products that have reached the technological feasibility stage.

For fiscal year 2007, the amortization of capitalized software costs declined by \$95 million from the prior fiscal year to \$354 million. The decline was primarily attributable to certain software costs related with prior acquisitions being fully amortized.

For fiscal year 2006, the amortization of capitalized software costs increased approximately \$2 million from the prior fiscal year to \$449 million. The increase was predominantly due to an increase in purchased software associated with acquisitions consummated in fiscal years 2006 and 2005.

Cost of Professional Services

Cost of professional services consists primarily of the personnel-related costs associated with providing professional services and training to customers. Cost of professional services for fiscal year 2007 increased \$63 million, or 24%, from fiscal year 2006 to \$326 million, principally due to the increase in professional services revenue and higher usage of external consultants, which lowered margins on professional services to 7% for fiscal year 2007, as compared to 17% for the prior year.

Cost of professional services for fiscal year 2006 increased \$41 million from fiscal year 2005 to \$263 million, mostly due to increased sales of professional services. The improvement in professional services gross margin from 8% in fiscal year 2005 to 17% in fiscal year 2006 is attributable to a more effective utilization of professional staff and increased professional services revenue.

Selling, General, and Administrative (SG&A)

SG&A expenses for fiscal year 2007 increased \$75 million, or 5%, from fiscal year 2006 to \$1.65 billion. The increase was primarily attributable to the impact of foreign exchange of approximately \$40 million, as well as higher personnel related expenses due to a \$24 million discretionary contribution to the CA Savings Harvest Plan, a 401(k) plan that was not made in prior year, and costs associated with recent acquisitions. In fiscal year 2007, we recorded a charge of approximately \$4 million to the provision for doubtful accounts as compared with a net credit of \$24 million in the prior fiscal year associated with the reduction in the prior business model accounts receivable balances. Under our business model, amounts due from customers are typically offset by related deferred subscription revenue, resulting in little or no carrying value on the Consolidated Balance Sheet. In addition, under our business model, customer payments are often received in advance of revenue recognition, which further results in a lower credit exposure. Each of these items reduces the need to provide for estimated bad debts. Additionally, office related expenses increased approximately \$7 million due to higher rent expense associated with recent sale-leasebacks of certain facilities, including our Islandia headquarters. The increase was partially offset by lower selling and marketing related costs of approximately \$43 million and lower costs for external consultants of approximately \$20 million. Despite being higher, personnel related costs were favorably impacted by the savings related to the recent restructuring actions from the fiscal year 2007 cost reduction and restructuring plan as described below.

SG&A expenses for fiscal year 2006 increased \$238 million, or 18%, from fiscal year 2005 to \$1.58 billion. The increase was primarily attributable to employee and other costs associated with the Concord, Niku, iLumin, and Wily acquisitions of approximately \$98 million, increased travel, training and relocation costs of approximately \$39 million, increased consulting costs of approximately \$55 million related to our ERP implementation, legal fees, and Sarbanes-Oxley compliance programs, as well as increased marketing and promotion costs of approximately \$35 million mostly due to our branding campaign and channel promotions. Partly offsetting these increases was a reduction of \$15 million associated with our decision in the fourth quarter of fiscal year 2006 to forego the discretionary contribution to the Company-sponsored 401(k) plan. Stock based compensation increased approximately \$4 million in fiscal year 2006, as compared with the prior fiscal year, to \$64 million. SG&A expenses for the fiscal years ended March 31, 2006 and 2005 included credits to the provision for doubtful accounts of approximately \$24 million and \$25 million, respectively. As noted above, these credits were associated with the reduction in the prior business model accounts receivable balances.

Product Development and Enhancements

For fiscal year 2007, product development and enhancement expenditures, which include product support, increased \$15 million, or 2%, compared to fiscal year 2006 to \$712 million. For each of the fiscal years ended March 31, 2007 and 2006, product development and enhancement expenditures represented approximately 18% of total revenue. During fiscal year 2007, we continued to focus on and invest in product development and enhancements for emerging technologies and products from our recent acquisitions, as well as a broadening of our enterprise product offerings.

For fiscal year 2006, product development and enhancement expenditures, decreased \$11 million compared to fiscal year 2005 to \$697 million. Product development and enhancement expenditures were approximately 18% and 20% of total revenue for fiscal years ended March 31, 2006 and 2005, respectively.

Commissions, Royalties and Bonuses

Commissions, royalties and bonuses for fiscal year 2007 decreased \$56 million, or 14%, from the comparable prior year quarter to \$338 million. The decline was primarily due to lower commission expense resulting from changes in CA's Incentive Compensation Plan (the "Incentive Compensation Plan") as well as changes in our sales organization and sales coverage model. The changes to the Incentive Compensation Plan included, among other changes, reducing accelerators in the plan (under which sales employees are paid commissions at higher rates when they reach certain levels of quota achievement), revising quotas, and reducing the number of people and functions paid on commissions. We believe that the changes made to the Incentive Compensation Plan for fiscal year 2007, as well as certain commission-related process improvements, have enhanced our ability to control overall commissions expense and avoid unexpected increases in commissions expense as occurred in the second half of fiscal year 2006, as well as improve our ability to effectively estimate, calculate, monitor, and timely pay sales commissions. The lower commission expense was partially offset by higher bonus expenses resulting from acquisition related retention payments and an increase in the number of employees who were compensated through annual

incentive compensation (bonus) plans. External royalties were \$35 million for fiscal year 2007 and were flat as compared to the prior fiscal year.

Commissions, royalties and bonuses for fiscal year 2006 increased \$55 million from fiscal year 2005 to \$394 million. Sales commission expense increased approximately \$36 million over the prior year, and was primarily due to a new sales commission plan for fiscal year 2006 that did not appropriately align commission payments with our overall performance. The impact of the higher sales commission expense was partially offset by lower bonus expenses in fiscal year 2006 as compared to fiscal year 2005 of approximately \$8 million, primarily due to the reductions in our variable compensation programs, including management bonuses. Royalties also increased over the prior year by approximately \$25 million primarily due to an increased level of royalties associated with recent acquisitions, royalties associated with the newly formed Ingres Corporation as well as higher sales of certain royalty bearing channel products.

For further description of the changes to the Incentive Compensation Plan and related processes, refer to “— Critical Accounting Policies and Estimates — Sales Commissions”. Refer also to Item 1A, “Risk Factors”.

Depreciation and Amortization of Other Intangible Assets

Depreciation and amortization of other intangible assets for fiscal year 2007 increased \$14 million from fiscal year 2006 to \$148 million. The increase in depreciation and amortization of other intangible assets was primarily due to the amortization of intangibles recognized in conjunction with recent acquisitions and our ERP system that went live in April 2006.

Depreciation and amortization of other intangible assets for fiscal year 2006 increased \$4 million from fiscal year 2005 to \$134 million. The increase in depreciation and amortization of other intangible assets was a result of certain intangible assets acquired during the year, resulting from recent acquisitions.

Other Gains, Net

Gains and losses attributable to divestitures of certain assets, certain foreign currency exchange rate fluctuations, and certain other infrequent events have been included in the “Other gains, net” line item in the Consolidated Statements of Operations. The components of “Other gains, net” are as follows:

(IN MILLIONS)	YEAR ENDED MARCH 31,		
	2007	2006	2005
Gains attributable to divestitures of certain assets	\$ (17)	\$ (7)	\$ —
Fluctuations in foreign currency exchange rates	—	(9)	8
Expenses / (gains) attributable to legal settlements	4	1	(13)
Total	\$ (13)	\$ (15)	\$ (5)

For fiscal year 2007, the gains attributable to divestiture of certain assets was primarily related to the sale of an investment in marketable securities for a gain of approximately \$14 million. For fiscal year 2006, the gain attributable to divestitures of certain assets related primarily to the non-cash gain recognized on the sale of assets which were contributed during the formation of Ingres Corporation. For fiscal year 2005, the gain attributable to legal settlements was primarily the result of a favorable decision for the Company, who was the plaintiff in an intellectual property lawsuit.

Restructuring and Other

In August 2006, we announced a cost reduction and restructuring plan (the fiscal 2007 plan) to significantly improve our expense structure and increase our competitiveness. The total cost of the fiscal 2007 plan is currently expected to be approximately \$200 million, most of which is expected to be recognized by the end of fiscal year 2008. The fiscal 2007 plan's objectives include a workforce reduction, global facilities consolidations and other cost reduction initiatives. For fiscal year 2007, we have incurred approximately \$147 million of expenses, primarily related to severance and lease termination costs under the fiscal 2007 plan, of which approximately \$104 million remains unpaid at March 31, 2007. The severance portion of the remaining liability balance is included in the “Salaries, wages and commissions” line on the Consolidated Balance Sheet. The facilities portion of the remaining liability balance is included in “Accrued expenses and other current liabilities” on the

Consolidated Balance Sheets. Final payment of these amounts is dependent upon settlement with the works councils in certain international locations and our ability to negotiate lease terminations.

In July 2005, we announced a restructuring plan designed to more closely align our investments with strategic growth opportunities, including a workforce reduction of approximately 5% or 800 positions worldwide. We incurred approximately \$85 million of expenses under the plan as of March 31, 2007, of which approximately \$19 million was incurred in fiscal year 2007 and approximately \$20 million was unpaid at March 31, 2007. As of March 31, 2006, we had incurred approximately \$66 million of expenses under the plan, approximately \$45 million of which was unpaid at March 31, 2006. The severance portion of the remaining liability balance is included in the "Salaries, wages and commissions" line on the Consolidated Balance Sheets of the respective periods. The facilities portion of the remaining liability balance is included in "Accrued expenses and other current liabilities" on the Consolidated Balance Sheets. Final payment of these amounts is dependent upon settlement with the works councils in certain international locations and our ability to negotiate lease terminations. The majority of the costs of this restructuring plan have been recorded.

During the fiscal years ended March 31, 2007 and March 31, 2006, we incurred approximately \$4 million and \$10 million, respectively, in connection with the Company's Deferred Prosecution Agreement entered into with the United States Attorney's Office for the Eastern District of New York (see also Note 8, "Commitments and Contingencies", in the Notes to the Consolidated Financial Statements). During fiscal year 2007, we incurred approximately \$15 million in legal fees in connection with matters under review by the Special Litigation Committee, composed of independent members of our Board of Directors (refer to Note 8, "Commitments and Contingencies", in the Notes to the Consolidated Financial Statements for further details). Additionally, in fiscal year 2007, we recorded an impairment charge of approximately \$12 million, relating to certain indefinite lived assets that were acquired in conjunction with a prior year acquisition. Further, we recorded a charge of approximately \$4 million for internal-use software capitalized in connection with our ERP implementation that was deemed to have no future value, as we subsequently selected a different technology solution which we believe better satisfies the specific needs of our business.

As part of our restructuring initiatives and associated review of the benefits of owning versus leasing certain properties, we also entered into three sale/leaseback transactions during fiscal year 2006. Two of these transactions resulted in a loss totaling approximately \$7 million which was recorded under "Restructuring and other" in the Consolidated Statements of Operations. The third sale/leaseback transaction resulted in a gain of approximately \$5 million which is being recognized ratably as a reduction to rent expense over the life of the lease term. During fiscal year 2006, we also incurred approximately \$5 million due to the termination of a non-core application development professional services project, which was recorded under "Restructuring and other" in the Consolidated Statement of Operations.

In fiscal year 2005, we incurred restructuring and other charges of approximately \$28 million, primarily related to a restructuring plan announced in the second quarter of fiscal year 2005. The restructuring plan included a workforce reduction of approximately 5% or 750 positions worldwide, slightly lower than our original estimate of 800 positions. As of March 31, 2005, the Company had made all payments under the plan.

Shareholder Litigation and Government Investigation Settlement

In prior fiscal years, a number of stockholder class action lawsuits were initiated that alleged, among other things, that the Company made misleading statements of material fact or omitted to state material facts necessary in order to make the statements, in light of the circumstances under which they were made, not misleading in connection with the Company's financial performance. Refer to Note 8, "Commitments and Contingencies", in the Notes to the Consolidated Financial Statements for additional information concerning the shareholder litigation.

In August 2003, we announced the settlement of all then outstanding litigation related to these actions. Under the settlement, we agreed to issue a total of up to 5.7 million shares of common stock to the shareholders represented in the three class action lawsuits, including payment of attorneys' fees. In January 2004, approximately 1.6 million settlement shares were issued along with approximately \$3.3 million to the plaintiffs' attorneys for attorney fees and related expenses. In March 2004, approximately 0.2 million settlement shares were issued to participants and beneficiaries of the CASH Plan. On October 8, 2004, the Federal Court signed an order approving the distribution of the remaining 3.8 million settlement shares, less

administrative expenses. All the remaining shareholder litigation settlement shares were issued in December 2004. Of the 3.8 million settlement shares, approximately 51,000 were used for the payment of administrative expenses in connection with the settlement, approximately 76,000 were liquidated for cash distributions to class members entitled to receive a cash distribution, and the remaining settlement shares were distributed to class members entitled to receive a distribution of shares.

The final shareholder litigation settlement value of approximately \$174 million was calculated using the New York Stock Exchange (NYSE) closing price of our common stock on December 14, 2004, the date the settlement shares were issued, and also included certain administrative costs associated with the settlement. An initial estimate for the value of the shareholder litigation settlement was established on August 22, 2003. The chart below summarizes the NYSE closing price of our common stock and the estimated value of the shareholder litigation settlement since the initial estimate was established.

	NYSE CLOSING STOCK PRICE	SHAREHOLDER LITIGATION SETTLEMENT ESTIMATED VALUE (IN MILLIONS)
December 14, 2004	\$ 31.03	\$ 174
September 30, 2004	26.30	156
June 30, 2004	28.06	163
March 31, 2004	26.86	158
December 31, 2003	27.34	158
September 30, 2003	26.11	150
August 22, 2003	25.00	144

The shareholder litigation settlement expense for fiscal year 2005 of \$16 million was a result of the increase in our stock price since March 31, 2004. The aggregate shareholder litigation settlement expense recorded was \$174 million, including \$158 million in fiscal year 2004. Refer to Note 8, "Commitments and Contingencies", in the Notes to the Consolidated Financial Statements for additional information.

In September 2004, we reached agreements with the USAO and the SEC in connection with their investigations of improper recognition of revenue and related reporting practices during the period January 1, 1998 through September 30, 2000, and the actions of certain former employees to impede the investigations. Under the DPA, we agreed, among other things, to establish a restitution fund of \$225 million to compensate present and former Company shareholders for losses caused by the misconduct of certain former Company executives. In connection with the DPA, we recorded a \$10 million charge in the fourth quarter of fiscal year 2004 and \$218 million in the second quarter of fiscal year 2005 associated with the establishment of the shareholder restitution fund and related administrative fees. The first payment of \$75 million was made during the third quarter of fiscal year 2005. The second payment of \$75 million was made in the second quarter of fiscal year 2006 and the final payment of \$75 million was made in the fourth quarter of fiscal year 2006. Refer to Note 8, "Commitments and Contingencies", in the Notes to the Consolidated Financial Statements for additional information.

Charge for In-Process Research and Development Costs

Charge for in-process research and development costs for fiscal year 2007 decreased \$8 million, or 44%, from the prior fiscal year to \$10 million. For fiscal year 2007, the charge for in-process research and development costs of \$10 million was associated with the acquisition of XOsoft. For fiscal year 2006, the charge for in-process research and development costs of \$18 million was associated with the acquisitions of Concord and Niku.

Interest Expense, Net

Interest expense, net for fiscal year 2007 increased \$19 million as compared to fiscal year 2006 to \$60 million. The increase was primarily attributable to an increase in the average debt outstanding related to our borrowings under the credit facility associated with our \$1 billion tender offer. Refer to the "Liquidity and Capital Resources" section of this MD&A and Note 7, "Debt", in the Notes to the Consolidated Financial Statements, for additional information.

Interest expense, net for fiscal year 2006 decreased \$65 million as compared to fiscal year 2005 to \$41 million. The change was primarily due to a decrease in average debt outstanding which resulted in a \$39 million decrease in interest expense, and a decrease in the average interest rate on our outstanding debt, which resulted in a \$20 million decrease in interest expense. The

decrease was also due to an increase in our average cash balance and an increase in interest rates on the cash balance during the fiscal year 2006 as compared to the fiscal year 2005, which resulted in an increase in interest income of approximately \$6 million.

Income Taxes

Our effective tax rate from continuing operations was approximately 21%, (28%), and 21% for fiscal years 2007, 2006, and 2005, respectively. Refer to Note 9, "Income Taxes", in the Notes to the Consolidated Financial Statements for additional information.

The income tax provision recorded for the fiscal year ended March 31, 2007 includes benefits of approximately \$23 million primarily arising from the resolution of certain international and U.S. Federal tax liabilities.

The income tax benefit recorded for the fiscal year ended March 31, 2006 includes benefits of approximately \$51 million arising from the recognition of certain foreign tax credits, \$18 million arising from international stock based compensation deductions and \$66 million arising from foreign export benefits and other international tax rate benefits. Partially offsetting these benefits was a charge of approximately \$46 million related to additional tax liabilities.

During the fourth quarter of fiscal year 2006, we repatriated approximately \$584 million from foreign subsidiaries. Total taxes related to the repatriation were approximately \$55 million. The repatriation was initially planned in fiscal year 2005 in response to the favorable tax benefits afforded by the American Jobs Creation Act of 2004 (AJCA), which introduced a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided that certain criteria were met. During fiscal year 2005, we recorded an estimate of this tax charge of \$55 million based on an estimated repatriation amount up to \$500 million. In the first quarter of fiscal year 2006, we recorded a benefit of approximately \$36 million reflecting the Department of Treasury and IRS Notice 2005-38 issued on May 10, 2005. In the fourth quarter of fiscal year 2006, we finalized our estimates of tax liabilities and determined that an adjustment was necessary and, accordingly, recorded an additional tax charge in the amount of \$36 million. No provision has been made for federal income taxes on the remaining balance of the unremitted earnings of our foreign subsidiaries since we plan to permanently reinvest all such earnings outside the U.S. Unremitted earnings totaled approximately \$838 million and \$685 million at March 31, 2007 and 2006, respectively.

The income tax expense for the fiscal year ended March 31, 2005 includes a charge of \$55 million reflecting our original estimated cost of repatriating approximately \$500 million under the AJCA which was partially offset by a \$26 million tax benefit attributable to a refund claim originally made for additional tax benefits associated with prior fiscal years. We received a letter from the IRS approving the claim for this refund in September 2004.

Selected Quarterly Information

2007 QUARTERLY RESULTS					
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	JUNE 30 ¹	SEPT. 30 ²	DEC. 31 ³	MAR. 31 ⁴	TOTAL
Revenue	\$ 949	\$ 987	\$ 1,002	\$ 1,005	\$ 3,943
Percent of annual revenue	24%	25%	25%	26%	100%
Income (loss) from continuing operations	\$ 35	\$ 54	\$ 52	\$ (20)	\$ 121
Basic income (loss) from continuing operations per share	\$ 0.06	\$ 0.09	\$ 0.10	\$ (0.04)	\$ 0.22
Diluted income (loss) from continuing operations per share	\$ 0.06	\$ 0.09	\$ 0.10	\$ (0.04)	\$ 0.22
2006 QUARTERLY RESULTS					
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	JUNE 30 ⁵	SEPT. 30 ⁶	DEC. 31 ⁷	MAR. 31 ⁸	TOTAL
Revenue	\$ 921	\$ 944	\$ 965	\$ 942	\$ 3,772
Percent of annual revenue	24%	25%	26%	25%	100%
Income (loss) from continuing operations	\$ 97	\$ 46	\$ 56	\$ (39)	\$ 160
Basic income (loss) from continuing operations per share	\$ 0.17	\$ 0.08	\$ 0.10	\$ (0.07)	\$ 0.28
Diluted income (loss) from continuing operations per share	\$ 0.16	\$ 0.08	\$ 0.09	\$ (0.07)	\$ 0.27

1 Includes an after-tax charge of approximately \$1 million in connection with certain DPA related costs and an after-tax charge of approximately \$6 million for severance and other expenses in connection with a restructuring plan (refer to "Shareholder Litigation and Government Investigation Settlement" and "Restructuring Charge" within Results of Operations).

- 2 Includes an after-tax charge of approximately \$1 million in connection with certain DPA related costs and an after-tax charge of approximately \$29 million for severance and other expenses in connection with a restructuring plan (refer to "Shareholder Litigation and Government Investigation Settlement" and "Restructuring Charge" within Results of Operations).
- 3 Includes an after-tax charge of approximately \$8 million in connection with matters under review by the Special Litigation Committee, composed of independent members of our Board of Directors (refer to Note 8, "Commitments and Contingencies", in the Notes to the Consolidated Financial Statements for further details) and an after-tax charge of approximately \$17 million for severance and other expenses in connection with a restructuring plan (refer to "Shareholder Litigation and Government Investigation Settlement" and "Restructuring Charge" within Results of Operations).
- 4 Includes an after-tax charge of approximately \$1 million in connection with certain DPA related costs, an after-tax charge of approximately \$1 million in connection with matters under review by the Special Litigation Committee, composed of independent members of our Board of Directors (refer to Note 8, "Commitments and Contingencies", in the Notes to the Consolidated Financial Statements for further details) and an after-tax charge of approximately \$50 million for severance and other expenses in connection with a restructuring plan (refer to "Shareholder Litigation and Government Investigation Settlement" and "Restructuring Charge" within Results of Operations). Also includes an after-tax impairment charge of approximately \$7 million, relating to certain indefinite lived assets that were acquired in conjunction with a prior year acquisition and an after-tax charge of approximately \$2 million for internal-use software capitalized in connection with our ERP implementation that was deemed to have no future value as we have selected a different technology solution which we believe better satisfies the specific needs of the business.
- 5 Includes a tax benefit of approximately \$36 million reflecting the Department of Treasury and Internal Revenue Service Notice 2005-38, which permitted the utilization of additional foreign tax credits to reduce the estimated taxes associated with cash repatriation (refer to "Income Taxes" within Results of Operations). Also includes a charge of approximately \$4 million related to the write-off of in-process research and development costs in relation to the acquisition of Concord (refer to Note 2, "Acquisitions, Divestitures and Restructuring", in the Notes to the Consolidated Financial Statements) and an after-tax credit of approximately \$2 million related to a reduction in the allowance for doubtful accounts (refer to Note 6, "Trade and Installment Accounts Receivable", in the Notes to the Consolidated Financial Statements).
- 6 Includes an after-tax charge of approximately \$14 million related to the write-off of in-process research and development costs in relation to the acquisition of Niku (refer to Note 2, "Acquisitions, Divestitures and Restructuring", in the Notes to the Consolidated Financial Statements), an after-tax charge of approximately \$6 million in connection with certain DPA related costs and the termination of a non-core application development professional services project, an after-tax charge of approximately \$23 million for severance and other expenses in connection with a restructuring plan (refer to "Shareholder Litigation and Government Investigation Settlement" and "Restructuring Charge" within Results of Operations), and an after-tax credit of approximately \$6 million related to a reduction in the allowance for doubtful accounts (refer to Note 6, "Trade and Installment Accounts Receivable", in the Notes to the Consolidated Financial Statements).
- 7 Includes an after-tax charge of approximately \$2 million in connection with certain DPA related costs, an after-tax charge of approximately \$9 million for severance and other expenses in connection with a restructuring plan (refer to "Shareholder Litigation and Government Investigation Settlement" and "Restructuring Charge" within Results of Operations), a tax charge of \$2 million relating to the loss on a sale/leaseback transaction, an after-tax credit of approximately \$2 million related to a reduction in the allowance for doubtful accounts (refer to Note 6, "Trade and Installment Accounts Receivable", in the Notes to the Consolidated Financial Statements), and an after-tax credit of approximately \$5 million relating to the gain on the sale of assets that were contributed during the formation of Ingres Corp. (refer to Note 2, "Acquisitions, Divestitures and Restructuring", in the Notes to the Consolidated Financial Statements).
- 8 Includes a tax charge of \$36 million required due to the finalization of our 2006 tax estimates, including the repatriation of \$584 million of cash in the fourth quarter of fiscal year 2006 (refer to "Income Taxes" within Results of Operations). Also includes an after-tax charge of approximately \$3 million in connection with certain DPA related costs, an after-tax charge of approximately \$9 million for severance and other expenses in connection with a restructuring plan (refer to "Shareholder Litigation and Government Investigation Settlement" and "Restructuring Charge" within Results of Operations), a tax charge of approximately \$2 million relating to the loss on a sale-leaseback transaction, and after-tax credits of approximately \$1 million related to a reduction in the allowance for doubtful accounts (refer to Note 6, "Trade and Installment Accounts Receivable", in the Notes to the Consolidated Financial Statements), \$6 million due to full year reductions in variable compensation programs, and \$7 million due to our decision in the fourth quarter of fiscal year 2006 to forego the discretionary contribution to the company-sponsored 401(k) plan.

Liquidity and Capital Resources

Our cash balances, including cash equivalents and marketable securities, are held in numerous locations throughout the world, with the majority residing outside the United States. Cash and cash equivalents totaled \$2.28 billion at March 31, 2007, representing an increase of \$444 million from the March 31, 2006 balance of \$1.83 billion. Compared to the prior year, cash and cash equivalents increased by approximately \$93 million due to the positive translation effect that foreign currency exchange rates had on cash for the fiscal year ended March 31, 2007. In fiscal year 2006, the Company repatriated approximately \$584 million in cash to the United States in order to avail itself of the provisions of the American Jobs Creation Act of 2004. The aggregate amount of taxes related to the repatriation was approximately \$55 million.

Sources and Uses of Cash

Cash generated by continuing operating activities, which represents the primary source of liquidity, was \$1.07 billion and \$1.38 billion for the fiscal years ended March 31, 2007 and 2006, respectively. For the fiscal year ended March 31, 2007, accounts receivable, net of deferred revenue, maintenance and financing obligations, decreased approximately \$554 million, compared to a decline in the comparable prior year period of \$743 million. In fiscal year 2007, accounts payable, accrued expenses and other liabilities declined approximately \$22 million compared to an increase in the comparable prior year period of \$87 million. The decline in accounts payable for fiscal year 2007 as compared to the increase in fiscal year 2006 was primarily a result of management's determination in fiscal year 2007 that its payable cycle had exceeded an optimal level and that the accounts payable balance should be reduced from the March 31, 2006 balance. We do not expect a significant impact on future cash flows from further changes in the payable cycle. Other factors contributing to the decline in cash from operations included higher expenses, the payment of fiscal year 2007 contributions to the CA Savings Harvest Plan, a 401(k) plan, which was not pre-funded in fiscal year 2006, as well as an increase in the amount of cash paid for income taxes.

Customers generally pay for the right to use our software products over the term of the associated software license agreement. We refer to these payments as installment payments. The timing and actual amounts of cash received from committed customer installment payments under any specific license agreement can be impacted by several factors. Often, it 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 their behalf through a third party. Although the terms and conditions of the financing arrangement have been negotiated by us with the financial institution, the decision of whether

to enter into these types of financing arrangements remains at the customer's discretion. Alternatively, we may decide to transfer our rights and title to the future committed installment payments due under the license agreement to a third party financial institution in exchange for a cash payment. In these instances, the license agreements signed by the customer contain provisions that allow for the assignment of our financial interest without further customer involvement. 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 and title to future committed installments to a third party, the 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 which may be incurred as a result of these limited recourse provisions will be immaterial.

Amounts received 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 the Consolidated Balance Sheet as either Deferred subscription revenue (collected) or Financing obligations (collected), depending upon whether the cash is received directly from the customer or from a third party financial institution. The aggregate balance of Deferred subscription revenue (collected), current and non-current, increased approximately \$329 million to \$2.24 billion at March 31, 2007, while Financing obligations (collected), both current and non-current, increased approximately \$52 million to approximately \$102 million as of March 31, 2007. As previously noted, collections of these amounts positively impact current year cash flows provided from operating activities and collections that would have been attributable to later years (i.e. the non-current portion) will not be available as a source of cash in such later years as the revenue is recognized. 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 fiscal year ended March 31, 2007 gross receipts related to single installments for the entire contract value, or a substantial portion of the contract value, increased approximately \$74 million from the comparable prior fiscal year to approximately \$577 million. Approximately \$45 million of the increase was due to an increase in payments received from customers, including instances where CA assisted with arranging third party financing. Additionally, cash receipts from the transfer of our financial interest in committed payments to a third party financial institution increased approximately \$29 million from the prior comparable period to \$89 million. This increase was primarily related to transactions completed in the third quarter of fiscal year 2007. For the fiscal year ended March 31, 2007, two customers represented more than 10% of the gross receipts from single installment payments as opposed to one customer in the prior fiscal year. Approximately \$7 million of installments representing the entire contract value or a substantial portion of the contract value billed in fiscal year 2007 are expected to be collected in fiscal year 2008, as compared to approximately \$90 million that had been billed in fiscal year 2006 which was collected in fiscal year 2007.

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 which are due, but which might not otherwise be paid until a subsequent period because of payment terms or other factors. In the fourth quarter of fiscal year 2007, we received contractual payments of this type of approximately \$2 million in the aggregate, for which we granted an immaterial discount of less than 1% of the gross invoice.

Our estimate of the fair value of net installment accounts receivable recorded under the prior business model approximates carrying value. Amounts due from customers under our business model are offset by deferred subscription value related to these license agreements, leaving no or minimal net carrying value on the balance sheet for such amounts. The fair value of such amounts may exceed 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, the agreements are considered executory in nature due to the ongoing commitment to provide unspecified future products as part of the agreement terms.

We can estimate the total amounts to be billed or collected at the conclusion of a reporting period. Amounts we expect to bill within the next twelve months at March 31, 2007 decreased by approximately \$263 million to approximately \$1.67 billion from the end of the prior fiscal year. Amounts we expect to bill beyond the next 12 months decreased by approximately

\$32 million to \$1.72 billion. The estimated amounts expected to be collected and a reconciliation of such amounts to the amounts we recorded as accounts receivable are as follows:

Reconciliation of Amounts to be Collected to Accounts Receivable

(IN MILLIONS)	MARCH 31, 2007	MARCH 31, 2006
Current:		
Accounts receivable	\$ 779	\$ 828
Other receivables	101	77
Amounts to be billed within the next 12 months — business model	1,525	1,785
Amounts to be billed within the next 12 months — prior business model	146	149
Less: allowance for doubtful accounts	(32)	(25)
Net amounts expected to be collected — current	2,519	2,814
Less:		
Unamortized discounts	(32)	(44)
Unearned maintenance	(1)	(4)
Deferred subscription revenue — current, billed	(571)	(429)
Deferred subscription value — current, uncollected	(362)	(581)
Deferred subscription value — noncurrent, uncollected, related to current accounts receivable	(1,163)	(1,204)
Trade and installment accounts receivable — current, net	390	552
Non-Current:		
Amounts to be billed beyond the next 12 months — business model	1,358	1,236
Amounts to be billed beyond the next 12 months — prior business model	357	511
Less: allowance for doubtful accounts	(5)	(20)
Net amounts expected to be collected — noncurrent	1,710	1,727
Less:		
Unamortized discounts	(18)	(34)
Unearned maintenance	(3)	(8)
Deferred subscription value — noncurrent, uncollected	(1,358)	(1,236)
Installment accounts receivable — noncurrent, net	331	449
Total accounts receivable, net	\$ 721	\$ 1,001
Deferred Subscription Value:		
Deferred subscription revenue (collected) — current	\$ 1,793	\$ 1,492
Deferred subscription revenue (collected) — noncurrent	451	423
Deferred subscription revenue current, billed	571	429
Deferred subscription value — current, uncollected	362	581
Deferred subscription value — noncurrent, uncollected, related to current accounts receivable	1,163	1,204
Deferred subscription value — noncurrent, uncollected	1,358	1,236
Financing obligations (collected) — current	63	25
Financing obligations (collected) — noncurrent	39	25
Aggregate deferred subscription value balance	\$ 5,800	\$ 5,415

In any fiscal year, cash generated by continuing operating activities typically increases in each consecutive quarter throughout the fiscal year, with the fourth quarter being the highest and the first quarter being the lowest, which may even be negative. The timing of cash generated during the fiscal year is impacted by many factors, including the timing of new or renewed contracts and the associated billings, as well as the timing of any customer financing or transfer of our interest in such contractual installments. Other factors that influence the levels of cash generated throughout the quarter can include the level and timing of expenditures. For fiscal year 2007, the cash generated by continuing operating activities was highest in the third quarter,

principally due to improvements in the receivable cycle attained in the third quarter which was primarily related to the transfer of our interest in committed installments to third party financial institutions, as well as the timing of tax related disbursements.

Unbilled amounts under the Company's business model are mostly collectible over one to six years. As of March 31, 2007, on a cumulative basis, approximately 53%, 85%, 94%, 97%, 99% and 100% of amounts due from customers recorded under the Company's business model come due within fiscal years ended 2008 through 2013, respectively.

Unbilled amounts under the prior business model are collectible over one to five years. As of March 31, 2007, on a cumulative basis, approximately 28%, 51%, 72%, 91%, and 100% of amounts due from customers recorded under the prior business model come due within fiscal years ended 2008 through 2012, respectively.

Fiscal Year 2007 compared to Fiscal Year 2006

Operating Activities

Cash generated by continuing operating activities for fiscal year 2007 was \$1.07 billion, representing a decline of approximately \$312 million compared to the prior year period. The decline was driven primarily by higher disbursements to vendors and higher payroll related disbursements of approximately \$318 million in the aggregate and higher cash payments for income taxes of approximately \$89 million. Additionally, collections from customers declined approximately \$39 million. The higher disbursements and lower collections were partially offset by \$150 million in restitution fund payments in fiscal year 2006 that did not recur in fiscal year 2007. The higher payroll related disbursements were primarily the result of increased personnel costs from acquisitions, as well as the funding of our fiscal year 2007 contributions to the CA Savings Harvest Plan, a 401(k) plan, which were not pre-funded in fiscal year 2006, as well as higher payments for commissions due to increased commission costs in the fourth quarter of fiscal year 2006.

Investing Activities

Cash used in investing activities for fiscal year 2007 was \$202 million compared to \$847 million for the prior year period. Cash paid for acquisitions, net of cash acquired, was \$212 million for fiscal year 2007 as compared to approximately \$1.01 billion for fiscal year 2006. Proceeds from the sale of assets were approximately \$223 million for fiscal year 2007 which included proceeds on the sale of our corporate headquarters in Islandia, New York of approximately \$201 million. Proceeds received from the sale of marketable securities in fiscal year 2007 declined approximately \$354 million to \$44 million as compared to the prior fiscal year.

Financing Activities

Cash used in financing activities for fiscal year 2007 was \$515 million compared to \$1.47 billion in the prior fiscal year. The cash used in fiscal year 2007 was primarily the result of the repurchase of approximately 51 million shares for \$1.21 billion, partly offset by new borrowings of \$750 million under the Company's \$1 billion revolving credit facility. The cash used in fiscal year 2006 was primarily the result of the \$912 million repayment of the Company's 6.375% Senior Notes and the 3% Concord Convertible Notes, as well as share repurchases of \$590 million.

Fiscal Year 2006 compared to Fiscal Year 2005

Operating Activities

Cash generated from continuing operating activities for fiscal year 2006 of \$1.38 billion declined by approximately 10% compared to the prior year's cash from continuing operations of \$1.53 billion. The decrease in cash generated from continuing operations was the result of several factors. We experienced an increase of approximately \$254 million in collections on accounts receivable compared to the prior year. This increase was more than offset by year over year increases in payments for taxes of approximately \$195 million, incremental restitution fund payments of \$75 million, and higher payments to vendors and employees of approximately \$165 million. The level of payments to vendors in fiscal year 2006 was favorably impacted by our concerted effort to extend payment terms. In fiscal year 2006, we experienced an increase in accounts payable and accrued expenses of approximately \$106 million, compared to the prior year which experienced a decrease of \$141 million.

Investing Activities

Cash used in investing activities was approximately \$847 million compared to \$740 million in the prior year. The change in cash from investing activities primarily relates to \$1.01 billion of cash used to fund fiscal year 2006 acquisitions. Partly

offsetting the cash used for acquisitions was \$398 million in cash received from the sales of marketable securities. In addition, we also entered into three sale/leaseback transactions during the second half of fiscal year 2006, due to our restructuring initiatives and our associated review of the benefits of owning versus leasing certain properties. Total cash realized from these transactions was approximately \$75 million. All of these transactions were recorded in accordance with SFAS No. 28, "Accounting for Sales with Leasebacks — an amendment of FASB Statement No. 13".

Financing Activities

Cash used in financing activities for fiscal year 2006 was \$1.47 billion compared to cash provided by financing activities of \$202 million in fiscal year 2005. The cash activity for fiscal year 2006 was primarily the repayment of the Company's notes and repurchases, as discussed above. For fiscal year 2005, cash provided was primarily attributed to the issuance of \$1 billion Senior Notes, partially offset by the redemption of approximately \$660 million in outstanding debt.

As of March 31, 2007 and 2006, our debt arrangements consisted of the following:

(IN MILLIONS)	2007		2006	
	MAXIMUM AVAILABLE	OUTSTANDING BALANCE	MAXIMUM AVAILABLE	OUTSTANDING BALANCE
Debt Arrangements:				
2004 Revolving Credit Facility (expires December 2008)	\$ 1,000	\$ 750	\$ 1,000	\$ —
6.500% Senior Notes due April 2008	—	350	—	350
4.750% Senior Notes due December 2009	—	500	—	500
1.625% Convertible Senior Notes due December 2009	—	460	—	460
5.625% Senior Notes due December 2014	—	500	—	500
International line of credit	20	—	5	—
Capital lease obligations and other	—	23	—	6
Total		\$ 2,583		\$ 1,816

At March 31, 2007, we had \$2.58 billion in debt and \$2.28 billion in cash and marketable securities. Our net deficit position was approximately \$303 million on the Consolidated Balance Sheet.

Additionally, we reported restricted cash balances of \$61 million and \$60 million at March 31, 2007 and 2006, respectively, which were included in the "Other noncurrent assets" line item.

In April 2005, we repaid, as scheduled, the \$825 million 6.375% Senior Notes issued during the fiscal year ended March 31, 1999 using our available cash balances (see Fiscal Year 1999 Senior Notes for details).

2004 Revolving Credit Facility

In December 2004, we entered into an unsecured revolving credit facility (the 2004 Revolving Credit Facility). The maximum committed amount available under the 2004 Revolving Credit Facility is \$1 billion, exclusive of incremental credit increases of up to an additional \$250 million which are available subject to certain conditions and the agreement of our lenders. The 2004 Revolving Credit Facility expires December 2008 and \$750 million was drawn as of March 31, 2007. No amounts were drawn as of March 31, 2006.

We drew down \$750 million in September 2006 in order to finance a portion of the \$1 billion tender offer, which is further described in the "Stock repurchase" section of Note 1 — "Significant Accounting Policies" in this Annual Report on Form 10-K. Borrowings under the 2004 Revolving Credit Facility bear interest at a rate dependent on our credit ratings at the time of such borrowings and are calculated according to a base rate or a Eurocurrency rate, as the case may be, plus an applicable margin and utilization fee. The Company's current borrowing rate is 6.49%. Depending on our credit rating at the time of borrowing, the applicable margin can range from 0% to 0.325% for a base rate borrowing and from 0.50% to 1.325% for a Eurocurrency borrowing, and the utilization fee can range from 0.125% to 0.250%. Based on our credit ratings as of May 2007, the applicable margin is 0.025% for a base rate borrowing and 1.025% for a Eurocurrency borrowing, and the utilization fee is 0.125%. In addition, we must pay facility fees quarterly at rates dependent on our credit ratings. The facility fees can range from 0.125% to 0.30% of the amount of the committed amount under the facility (without taking into account any

outstanding borrowings under such commitments). Based on our credit ratings as of May 2007, the facility fee is 0.225% of the \$1 billion committed amount.

The 2004 Revolving Credit Facility contains customary covenants for transactions of this type, including two financial covenants: (i) for the 12 months ending each quarter-end, the ratio of consolidated debt for borrowed money to consolidated cash flow, each as defined in the 2004 Revolving Credit Facility, must not exceed 4.00 for the quarters ending March 31, 2007 and thereafter; and (ii) for the 12 months ending each quarter-end, the ratio of consolidated cash flow to the sum of interest payable on, and amortization of debt discount in respect of, all consolidated debt for borrowed money, as defined in the 2004 Revolving Credit Facility, must not be less than 5.00. In addition, as a condition precedent to each borrowing made under the 2004 Revolving Credit Facility, as of the date of such borrowing, (i) no event of default shall have occurred and be continuing and (ii) we are to reaffirm that the representations and warranties made in the 2004 Revolving Credit Facility (other than the representation with respect to material adverse changes, but including the representation regarding the absence of certain material litigation) are correct. As of May 2007, we are in compliance with these debt covenants.

[Fiscal Year 1999 Senior Notes](#)

In fiscal year 1999, the Company issued \$1.75 billion of unsecured Senior Notes in a transaction pursuant to Rule 144A under the Securities Act of 1933 (Rule 144A). Amounts borrowed, rates, and maturities for each issue were \$575 million at 6.25% due April 15, 2003, \$825 million at 6.375% due April 15, 2005, and \$350 million at 6.5% due April 15, 2008. In April 2005, the Company repaid the \$825 million remaining balance of the 6.375% Senior Notes from available cash balances. As of March 31, 2007, \$350 million of the 6.5% Senior Notes remained outstanding.

[Fiscal Year 2005 Senior Notes](#)

In November 2004, the Company issued an aggregate of \$1 billion of unsecured Senior Notes (2005 Senior Notes) in a transaction pursuant to Rule 144A. The Company issued \$500 million of 4.75%, 5-year notes due December 2009 and \$500 million of 5.625%, 10-year notes due December 2014. The Company used the net proceeds from this issuance to repay debt. The Company has the option to redeem the 2005 Senior Notes at any time, at redemption prices equal to the greater of (i) 100% of the aggregate principal amount of the notes of such series being redeemed and (ii) the present value of the principal and interest payable over the life of the 2005 Senior Notes, discounted at a rate equal to 15 basis points and 20 basis points for the 5-year notes and 10-year notes, respectively, over a comparable U.S. Treasury bond yield. The maturity of the 2005 Senior Notes may be accelerated by the holders upon certain events of default, including failure to make payments when due and failure to comply with covenants in the 2005 Senior Notes. The 5-year notes were issued at a price equal to 99.861% of the principal amount and the 10-year notes at a price equal to 99.505% of the principal amount for resale under Rule 144A and Regulation S. The Company also agreed for the benefit of the holders to register the 2005 Senior Notes under the Securities Act of 1933 pursuant to a registered exchange offer so that the 2005 Senior Notes could be sold in the public market. Because the Company did not meet certain deadlines for completion of the exchange offer, the interest rate on the 2005 Senior Notes increased by 25 basis points as of September 27, 2005 and increased by an additional 25 basis points as of December 26, 2005 since the delay was not cured prior to that date. The additional 50 basis points ceased to accrue as of November 18, 2006, when the 2005 Senior Notes could be sold under Rule 144, without registration, to the public by holders who are not affiliated with the Company.

[1.625% Convertible Senior Notes](#)

In fiscal year 2003, the Company issued \$460 million of unsecured 1.625% Convertible Senior Notes (1.625% Notes), due December 15, 2009, in a transaction pursuant to Rule 144A. The 1.625% Notes are senior unsecured indebtedness and rank equally with all existing senior unsecured indebtedness. Concurrent with the issuance of the 1.625% Notes, we entered into call spread repurchase option transactions (1.625% Notes Call Spread) to partially mitigate potential dilution from conversion of the 1.625% Notes. The option purchase price of the 1.625% Notes Call Spread was \$73 million and the entire purchase price was charged to Stockholders' Equity in December 2002. Under the terms of the 1.625% Notes Call Spread, the Company can elect to receive (i) outstanding shares equivalent to the number of shares that will be issued if all of the 1.625% Notes are converted into shares (23 million shares) upon payment of an exercise price of \$20.04 per share (aggregate price of \$460 million); or (ii) a net cash settlement, net share settlement or a combination, whereby the Company will receive cash or shares equal to the increase in the market value of the 23 million shares from the aggregate value at the \$20.04 exercise price

(aggregate price of \$460 million), subject to the upper limit of \$30.00 discussed below. The 1.625% Notes Call Spread is designed to partially mitigate the potential dilution from conversion of the 1.625% Notes, depending upon the market price of our common stock at such time. The 1.625% Notes Call Spread can be exercised in December 2009 at an exercise price of \$20.04 per share. To limit the cost of the 1.625% Notes Call Spread, an upper limit of \$30.00 per share has been set, such that if the price of the common stock is above that limit at the time of exercise, the number of shares eligible to be purchased will be proportionately reduced based on the amount by which the common share price exceeds \$30.00 at the time of exercise. As of March 31, 2007, the estimated fair value of the 1.625% Notes Call Spread was approximately \$122 million, which was based upon independent valuations from third-party financial institutions.

3% Concord Convertible Notes

In connection with our acquisition of Concord in June 2005, we assumed \$86 million in 3% convertible senior notes due 2023. In accordance with the notes' terms, we redeemed (for cash) the notes in full in July 2005.

International Line of Credit

An unsecured and uncommitted multi-currency line of credit is available to meet short-term working capital needs for our subsidiaries operating outside the United States. The line of credit is available on an offering basis, meaning that transactions under the line of credit will be on such terms and conditions, including interest rate, maturity, representations, covenants and events of default, as mutually agreed between our subsidiaries and the local bank at the time of each specific transaction. As of March 31, 2007, the amount available under this line totaled approximately \$20 million and approximately \$3 million was pledged in support of bank guarantees. Amounts drawn under these facilities as of March 31, 2007 were minimal.

In addition to the above facility, we use guarantees and letters of credit issued by financial institutions to guarantee performance on certain contracts. At March 31, 2007, none of these arrangements had been drawn down by third parties.

Share Repurchases, Stock Option Exercises and Dividends

We repurchased approximately \$1.21 billion of common stock in connection with our publicly announced corporate buyback program in fiscal year 2007 compared with \$590 million in fiscal year 2006; we received approximately \$41 million in proceeds resulting from the exercise of Company stock options in fiscal year 2007 compared with \$97 million in fiscal year 2006; and we paid dividends of \$88 million, \$93 million and \$47 million in each of the fiscal years 2007, 2006 and 2005, respectively.

As announced in April 2005, beginning in fiscal year 2006 we increased our annual cash dividend to \$0.16 per share, which was paid out in quarterly installments of \$0.04 per share as and when declared by the Board of Directors.

On June 29, 2006, our Board of Directors authorized a plan to repurchase up to \$2 billion of shares of our common stock in fiscal year 2007. This new plan replaced the prior \$600 million common stock repurchase plan. We expected to finance the repurchase plan through a combination of cash on hand and bank financing.

On August 15, 2006, we announced the commencement of a \$1 billion tender offer to repurchase outstanding common stock, at a price not less than \$22.50 and not greater than \$24.50 per share.

On September 14, 2006, the expiration date of the tender offer, we accepted for purchase 41,225,515 shares at a purchase price of \$24.00 per share, for a total price of approximately \$989 million, which excludes bank, legal and other associated charges. Upon completion of the tender offer, we retired all of the shares that were repurchased. There were no share repurchases in the third or fourth quarters of fiscal year 2007.

On May 23, 2007, we announced that as part of our previously authorized share repurchase plan of up to \$2 billion, we will repurchase \$500 million of our shares under an Accelerated Share Repurchase program (ASR). We anticipate that the ASR will be completed during the first half of fiscal year 2008. Any potential future repurchases will be considered in the normal course of business.

Effect of Exchange Rate Changes

There was \$93 million favorable impact to our cash flows in fiscal year 2007 predominantly due to the weakening of the U.S. Dollar against the British pound and the euro, each by approximately 7%. In fiscal year 2006, we had a negative \$63 million impact to our cash flows, predominantly due to the weakening of the British pound and the euro against the U.S. dollar of approximately 8% and 6%, respectively.

Other Matters

At March 31, 2007, our senior unsecured notes were rated Ba1, BB, and BB+ by Moody's Investor Service (Moody's), Standard and Poor's (S&P) and Fitch Ratings (Fitch), respectively. The outlook on these unsecured notes is negative by all three rating agencies. As of May 2007, our rating and outlook remained unchanged. Peak borrowings under all debt facilities during the fiscal year 2007 totaled approximately \$2.58 billion, with a weighted average interest rate of 5.4%.

In March 2005, we pre-funded contributions to the CA Savings Harvest Plan, a 401(k) plan. We elected not to pre-fund our contribution as of March 31, 2007 or 2006 as a result of IRS Treasury Regulations eliminating the tax benefit associated with the pre-funding of elective and matching contributions.

Capital resource requirements as of March 31, 2007 and 2006 consisted of lease obligations for office space, equipment, mortgage and loan obligations, our ERP implementation, and amounts due as a result of product and company acquisitions. Refer to "Contractual Obligations and Commitments" for additional information.

It is expected that existing cash, cash equivalents, marketable securities, the availability of borrowings under existing and renewable credit lines and in the capital markets, and cash expected to be provided from operations will be sufficient to meet ongoing cash requirements. We expect our long-standing history of providing extended payment terms to our customers to continue.

We expect to use existing cash balances and future cash generated from operations to fund financing activities such as the repayment of our debt balances as they mature as well as the repurchase of shares of common stock and the payment of dividends as approved by our Board of Directors. Cash generated will also be used for investing activities such as future acquisitions as well as additional capital spending, including our continued investment in our ERP implementation.

Off-Balance Sheet Arrangements

We have commitments to invest approximately \$3 million in connection with joint venture agreements.

Prior to fiscal year 2001, we sold individual accounts receivable under the prior business model to a third party subject to certain recourse provisions. The outstanding principal balance subject to recourse of these receivables approximated \$115 million and \$146 million as of March 31, 2007 and 2006, respectively. As of March 31, 2007, we have not incurred any losses related to these receivables. Other than the commitments and recourse provisions described above, we do not have any other off-balance sheet arrangements with unconsolidated entities or related parties and, accordingly, off-balance sheet risks to our liquidity and capital resources from unconsolidated entities are limited.

Contractual Obligations and Commitments

We have commitments under certain contractual arrangements to make future payments for goods and services. These contractual arrangements secure the rights to various assets and services to be used in the future in the normal course of business. For example, we are contractually committed to make certain minimum lease payments for the use of property under operating lease agreements. In accordance with current accounting rules, the future rights and related obligations pertaining to such contractual arrangements are not reported as assets or liabilities on our Consolidated Balance Sheets. We expect to fund these contractual arrangements with cash generated from operations in the normal course of business.

The following table summarizes our contractual arrangements at March 31, 2007 and the timing and effect that such commitments are expected to have on our liquidity and cash flow in future periods. In addition, the table summarizes the timing of payments on our debt obligations as reported on our Consolidated Balance Sheet as of March 31, 2007.

(IN MILLIONS)	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Contractual Obligations					
Long-term debt obligations (inclusive of interest)	3,006	137	2,228	57	584
Operating lease obligations ¹	783	133	194	132	324
Purchase obligations	117	77	32	8	—
Other long-term liabilities	136	39	47	26	24
Total	4,042	386	2,501	223	932

¹ The contractual obligations for noncurrent operating leases include sublease income totaling \$101 million expected to be received in the following periods: \$30 million (less than 1 year); \$43 million (1-3 years); \$17 million (3-5 years); and \$11 million (more than 5 years).

As of March 31, 2007, we have no material capital lease obligations, either individually or in the aggregate.

Critical Accounting Policies and Estimates

We review our financial reporting and disclosure practices and accounting policies quarterly to help ensure that they provide accurate and transparent information relative to the current economic and business environment. Note 1, "Significant Accounting Policies", in the Notes to the Consolidated Financial Statements contains a summary of the significant accounting policies that we use. Many of these accounting policies involve complex situations and require a high degree of judgment, either in the application and interpretation of existing accounting literature or in the development of estimates that impact our financial statements. On an ongoing basis, we evaluate our estimates and judgments based on historical experience as well as other factors that are believed to be reasonable under the circumstances. These estimates may change in the future if underlying assumptions or factors change.

We consider the following significant accounting policies to be critical because of their complexity and the high degree of judgment involved in implementing them.

Revenue Recognition

We generate revenue from the following primary sources: (1) licensing software products; (2) providing customer technical support (referred to as maintenance); and (3) providing professional services, such as consulting and education.

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

Our software licenses generally do not include acceptance provisions. An acceptance provision allows a customer to test the software for a defined period of time before committing to license the software. If a license agreement includes an acceptance provision, we do not record deferred subscription value or recognize revenue until the earlier of the receipt of a written customer acceptance or, if not notified by the customer to cancel the license agreement, the expiration of the acceptance period.

Under our business model, software license agreements typically include flexible contractual provisions that, among other things, allow customers to receive unspecified future software products for no additional fee. These agreements combine the right to use the software products with maintenance for the term of the agreement. Under these agreements, once all four of the above noted revenue recognition criteria are met, we are required to recognize revenue ratably over the term of the license agreement. For license agreements signed prior to October 2000 (the prior business model), once all four of the above noted

revenue recognition criteria were met, software license fees were recognized as revenue up-front (as the contracts did not include a right to unspecified software products) and the maintenance fees were deferred and subsequently recognized as revenue over the term of the license. Our historical practice has been that revenue from acquisitions is initially recorded on the acquired company's systems, generally under a perpetual or up-front model, and is then converted to our ratable model within the first fiscal year after the acquisition. As new contracts are entered into or renewed that contain the right to receive unspecified future software products under our business model, revenue is recognized ratably as subscription revenue on a monthly basis over the term of the agreement. For fiscal year 2007, we recorded approximately \$40 million of revenue on an up-front basis relating to acquisitions that occurred subsequent to the fourth quarter of fiscal year 2006. We expect that a portion of this revenue will continue to be recorded on an up-front basis as "Software fees and other", which may result in higher total revenue for the period than if this revenue had been transitioned to our ratable subscription model in accordance with our historical practice.

Under our business model, a relatively small percentage of revenue related to certain products is recognized on an up-front or perpetual basis once all revenue recognition criteria are met in accordance with SOP 97-2 as described above, and is reported in the "Software fees and other" line of the Consolidated Statements of Operations. License agreements pertaining to such products do not include the right to receive unspecified future software products, and maintenance is deferred and subsequently recognized over the term of maintenance period. In the event such license agreements are executed within close proximity or in contemplation of other license agreements with the same customer which contain the right to receive unspecified future software products, the contracts may be considered a single multi-element agreement, and as such all revenue may be deferred and recognized as "Subscription revenue" in the Consolidated Statement of Operations.

Maintenance revenue is derived from two primary sources: (1) combined license and maintenance agreements recorded under the prior business model; and (2) stand-alone maintenance agreements.

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

We also record stand-alone maintenance revenue earned from customers who elect optional maintenance. Revenue from such renewals is recognized as maintenance revenue over the term of the renewal agreement.

The "Deferred maintenance revenue" line item on our Consolidated Balance Sheets principally represents payments received in advance of maintenance services rendered.

Revenue from professional service arrangements is recognized pursuant to the provisions of SOP 97-2, which in most cases is as the services are performed. Revenues from professional services that are sold as part of a software transaction are deferred and recognized on a ratable basis over the life of the related software transaction. If it is not probable that a project will be completed or the payment will be received, revenue is deferred until the uncertainty is removed.

Revenue recognition from sales to distributors, resellers, and VARs commences when all four of the SOP 97-2 revenue recognition criteria noted above are met and when these entities sell the software product to their customers. This is commonly referred to as the sell-through method. Beginning July 1, 2004, sales of our products made by distributors, resellers and VARs to their customers incorporate the right for the end-users to receive certain upgraded software products at no additional fee. Accordingly, revenue from those contracts is recognized on a ratable basis.

We have an established business practice of offering installment payment options to customers and have a history of successfully collecting substantially all amounts due under such agreements. We assess collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If, in our judgment,

collection of a fee is not probable, we will not recognize revenue until the uncertainty is removed through the receipt of cash payment.

Our standard licensing agreements include a product warranty provision for all products. Such warranties are accounted for in accordance with SFAS No. 5, "Accounting for Contingencies." The likelihood that we would be required to make refunds to customers under such provisions is considered remote.

Under the terms of substantially all of our license agreements, we have agreed to indemnify customers for costs and damages arising from claims against such customers based on, among other things, allegations that our software products infringe the intellectual property rights of a third party. In most cases, in the event of an infringement claim, we retain the right to (i) procure for the customer the right to continue using the software product; (ii) replace or modify the software product to eliminate the infringement while providing substantially equivalent functionality; or (iii) if neither (i) nor (ii) can be reasonably achieved, we may terminate the license agreement and refund to the customer a pro-rata portion of the fees paid. Such indemnification provisions are accounted for in accordance with SFAS No. 5. The likelihood that we would be required to make refunds to customers under such provisions is considered remote. In most cases and where legally enforceable, the indemnification is limited to the amount paid by the customer.

Accounts Receivable

The allowance for doubtful accounts is a valuation account used to reserve for the potential impairment of accounts receivable on the balance sheet. In developing the estimate for the allowance for doubtful accounts, we rely on several factors, including:

- Historical information, such as general collection history of multi-year software agreements;
- Current customer information and events, such as extended delinquency, requests for restructuring, and filing for bankruptcy;
- Results of analyzing historical and current data; and
- The overall macroeconomic environment.

The allowance is composed of two components: (a) specifically identified receivables that are reviewed for impairment when, based on current information, we do not expect to collect the full amount due from the customer; and (b) an allowance for losses inherent in the remaining receivable portfolio based on the analysis of the specifically reviewed receivables.

Under our business model, amounts due from customers are offset by deferred subscription value (unearned revenue) related to these amounts, resulting in little or no carrying value on the balance sheet. Therefore, a smaller allowance for doubtful accounts is required.

Sales Commissions

We accrue sales commissions based on, among other things, estimates of how our sales personnel have performed against specified annual sales quotas. These estimates involve assumptions regarding the Company's projected new product sales and billings. All of these assumptions reflect our best estimates, but these items involve uncertainties, and as a result, if other assumptions had been used in the period, sales commission expense could have been impacted for that period. Under our current sales compensation model, during periods of high growth and sales of new products relative to revenue in that period, the amount of sales commission expense attributable to the license agreement would be recognized fully in the period and could negatively impact income and earnings per share in that period, particularly in the second half of the fiscal year when new contract values are traditionally higher than in the first half.

In our Annual Report on Form 10-K for fiscal year 2006, we reported that commissions for 2006 were higher than anticipated, primarily due to a new sales commission plan for fiscal year 2006 that did not appropriately align commission payments with our overall performance. Also, at the end of fiscal year 2006, we had a material weakness in our internal control over financial reporting due to ineffective policies and procedures relating to controls over the accounting for sales commissions. We made changes to the Incentive Compensation Plan for fiscal year 2007 and related processes for the purpose of improving our ability to effectively estimate, accrue for, calculate, monitor, and timely pay sales commissions, and to control overall commission expense as part of our remediation of the 2006 material weakness in the Company's internal control over financial reporting

related to accounting for commissions. We simplified the Incentive Compensation Plan by, among other things, in April 2006, on a worldwide basis, reducing accelerators in the plan (under which sales employees are paid commissions at higher rates when they reach certain levels of quota achievement) and simplifying some of the metrics on which quotas are based. Effective in October 2006, in North America and Latin America we reduced the number of people and functions being paid on commissions, eliminated certain multipliers in the plan (under which cash bonuses were awarded to encourage certain types of sales activity), and adopted further changes in the metrics on which commissions are based in part to drive the sale of new products and solutions to new and existing customers. Most of these changes were deployed on a worldwide basis in April 2007 via the fiscal year 2008 Incentive Compensation Plan. The Incentive Compensation Plan remains subject to evaluation and modification. We have also made process improvements in regard to calculating, recording, accruing for, and effecting payment of and reconciling commissions related accounting transactions.

The 2007 Incentive Compensation Plan was modified and evaluated on an ongoing basis throughout fiscal year 2007 and performed generally as expected in fiscal year 2007. We believe we have fully remediated the material weakness disclosed at the end of fiscal year 2006. Refer to Item 9A, "Controls and Procedures", for additional information on our remediation activities.

Our efforts to improve our commissions-related processes are ongoing. Refer to Item 1A, "Risk Factors", for additional information on risks associated with changes in the Incentive Compensation Plan and other changes affecting our sales force.

Income Taxes

When we prepare our consolidated financial statements, we estimate our income taxes in each jurisdiction in which we operate. We record this amount as a provision for taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." This process requires us to estimate our actual current tax liability in each jurisdiction; estimate differences resulting from differing treatment of items for financial statement purposes versus tax return purposes (known as "temporary differences"), which result in deferred tax assets and liabilities; and assess the likelihood that our deferred tax assets and net operating losses will be recovered from future taxable income. If we believe that recovery is not likely, we establish a valuation allowance. We have recognized as a deferred tax asset a portion of the tax benefits connected with losses related to operations. As of March 31, 2007, our gross deferred tax assets, net of a valuation allowance, totaled \$801 million. Realization of these deferred tax assets assumes that we will be able to generate sufficient future taxable income so that these assets will be realized. The factors that we consider in assessing the likelihood of realization include the forecast of future taxable income and available tax planning strategies that could be implemented to realize the deferred tax assets.

Deferred tax assets result from acquisition expenses, such as duplicate facility costs, employee severance and other costs that are not deductible until paid, net operating losses (NOLs) and temporary differences between the taxable cash payments received from customers and the ratable recognition of revenue in accordance with GAAP. The NOLs expire between fiscal years 2008 and 2027. Additionally, approximately \$61 million and \$57 million of the valuation allowance at March 31, 2007 and March 31, 2006, respectively, is attributable to acquired NOLs which are subject to annual limitations under IRS Code Section 382. Future results may vary from these estimates.

We believe that adequate accruals have been made for income taxes liabilities, and have classified these in current and long-term liabilities based upon our estimate of when the ultimate resolution of these liabilities will occur. The ultimate resolution of the liabilities will take place upon the earlier of (i) receipt of a final determination from the applicable taxing authorities or (ii) the date when the tax authorities are statutorily prohibited from adjusting the Company's tax computations. Any difference between the amount accrued and the ultimate settlement amount if any, will be released to income or recorded as a reduction of goodwill depending upon whether the liability was initially recorded in purchase accounting.

Goodwill, Capitalized Software Products, and Other Intangible Assets

SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), requires an impairment-only approach to accounting for goodwill and other intangibles with an indefinite life. Absent any prior indicators of impairment, we perform an annual impairment analysis during the fourth quarter of our fiscal year.

The SFAS No. 142 goodwill impairment model is a two-step process. The first step is used to identify potential impairment by comparing the fair value of a reporting unit with its net book value (or carrying amount), including goodwill. If the fair value exceeds the carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

Determining the fair value of a reporting unit under the first step of the goodwill impairment test, and determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test, is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether an impairment charge is recognized and the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flow and are based on our best estimate of future revenue and operating costs and general market conditions. These estimates are subject to review and approval by senior management. This approach uses significant assumptions, including projected future cash flow, the discount rate reflecting the risk inherent in future cash flow, and a terminal growth rate. There was no impairment charge recorded with respect to goodwill for fiscal year 2007.

The carrying value of capitalized software products, both purchased software and internally developed software, and other intangible assets, are reviewed on a regular basis for the existence of internal and external facts or circumstances that may suggest impairment. The facts and circumstances considered include an assessment of the net realizable value for capitalized software products and the future recoverability of cost for other intangible assets as of the balance sheet date. It is not possible for us to predict the likelihood of any possible future impairments or, if such an impairment were to occur, the magnitude thereof.

Intangible assets with finite useful lives are subject to amortization over the expected period of economic benefit to the Company. We evaluate the remaining useful lives of intangible assets to determine whether events or circumstances have occurred that warrant a revision to the remaining period of amortization. In such cases the remaining carrying amount of the intangible asset is amortized over the revised remaining useful life.

We performed our annual assessment during the fourth quarter of fiscal year 2007 and concluded that an impairment charge of approximately \$12 million, relating to certain identifiable intangible assets that were not subject to amortization, which were acquired in conjunction with a prior year acquisition should be recorded. For fiscal year 2007, the impairment charge was reported in the "Restructuring and other" line item in the Consolidated Statements of Operations. The balance of assets with indefinite lives at March 31, 2007 and 2006 was \$14 million and \$26 million, respectively.

[Accounting for Business Combinations](#)

The allocation of purchase price for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired, including in-process research and development, and liabilities assumed based on their respective fair values.

[Product Development and Enhancements](#)

We account for product development and enhancements in accordance with SFAS No. 86, "*Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed.*" SFAS No. 86 specifies that costs incurred internally in researching and developing a computer software product should be charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established and assumptions are used that reflect our best estimates. If other assumptions had been used in the current period to estimate

technological feasibility, the reported product development and enhancement expense could have been impacted. Annual amortization of capitalized software costs is the greater of the amount computed using the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or the straight-line method over the remaining estimated economic life of the software product, generally estimated to be five years from the date the product became available for general release to customers. The Company amortized capitalized software costs using the straight-line method in fiscal year 2006 and fiscal year 2007, as anticipated future revenue is projected to increase for several years considering the Company is continuously integrating current software technology into new software products.

Accounting for Stock-Based Compensation

We currently maintain stock-based compensation plans. We use the Black-Scholes option-pricing model to compute the estimated fair value of certain stock-based awards. The Black-Scholes model includes assumptions regarding dividend yields, expected volatility, expected lives, and risk-free interest rates. These assumptions reflect our best estimates, but these items involve uncertainties based on market and other conditions outside of our control. As a result, if other assumptions had been used, stock-based compensation expense could have been materially impacted. Furthermore, if different assumptions are used in future periods, stock-based compensation expense could be materially impacted in future years.

As described in Note 10, "Stock Plans," in the Notes to the Consolidated Financial Statements, performance share units (PSUs) are awards under the long-term incentive plan for senior executives where the number of shares or restricted shares as applicable, ultimately received by the employee depends on Company performance measured against specified targets and will be determined after a three-year or one-year period as applicable. The fair value of each award is estimated on the date that the performance targets are established based on the fair value of our stock and our estimate of the level of achievement of our performance targets. We are required to recalculate the fair value of issued PSUs each reporting period until they are granted. The adjustment is based on the quoted market price of our stock on the reporting period date. Each quarter, we compare the actual performance we expect to achieve with the performance targets.

Legal Contingencies

We are currently involved in various legal proceedings and claims. Periodically, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any legal proceeding or claim is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability of a loss and the determination as to whether the amount of loss is reasonably estimable. Due to the uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending litigation and claims, and may revise our estimates. Such revisions could have a material impact on our results of operations and financial condition. Refer to Note 8, "Commitments and Contingencies", in the Notes to the Consolidated Financial Statements for a description of our material legal proceedings.

New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), "*Accounting for Uncertainty in Income Taxes*," which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, "*Accounting for Income Taxes*". FIN 48 provides guidance relative to the recognition, derecognition and measurement of taxes related to tax positions taken for financial statement purposes. The standard also required expanded disclosures. FIN 48 is effective for fiscal years beginning after December 15, 2006 and will be implemented in our first quarter of fiscal year 2008. We are currently evaluating the impact of this standard but we do not believe there will be any material impact on our Consolidated Statements of Operations or Consolidated Statements of Cash Flows from the implementation of this standard.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, "*Fair Value Measurements*". SFAS No. 157 defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles (GAAP) and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently evaluating the impact of this standard on our Consolidated Financial Statements.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) 108, “*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*”. SAB 108 provides interpretive guidance on how registrants should quantify financial statement misstatements. There is currently diversity in practice, with the two commonly used methods to quantify misstatements being the “rollover” method (which primarily focuses on the income statement impact of misstatements) and the “iron curtain” method (which focuses on the balance sheet impact). SAB 108 requires registrants to use a dual approach whereby both of these methods are considered in evaluating the materiality of financial statement errors. Prior materiality assessments will need to be considered using both the rollover and iron curtain methods. The adoption of SAB 108 did not have a material impact on our Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, “*The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*” (SFAS No. 159). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS No. 159 on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio, debt, and installment accounts receivable. We have a prescribed methodology whereby we invest our excess cash in liquid investments that are composed of money market funds and debt instruments of government agencies and high-quality corporate issuers (Standard & Poor’s single “A” rating and higher). To mitigate risk, many of the securities have a maturity date within one year, and holdings of any one issuer, excluding the U.S. government, do not exceed 10% of the portfolio. Periodically, the portfolio is reviewed and adjusted if the credit rating of a security held has deteriorated.

As of March 31, 2007, our outstanding debt approximated \$2.58 billion, most of which was in fixed rate obligations. If market rates were to decline, we could be required to make payments on the fixed rate debt that would exceed those based on current market rates. Each 25 basis point decrease in interest rates would have an associated annual opportunity cost of approximately \$5 million. Each 25 basis point increase or decrease in interest rates would have a corresponding effect on our variable rate debt of approximately \$2 million as of March 31, 2007.

As of March 31, 2007, we did not utilize derivative financial instruments to mitigate the above mentioned interest rate risks.

We offer financing arrangements with installment payment terms in connection with our software license agreements. The aggregate amounts due from customers include an imputed interest element, which can vary with the interest rate environment. Each 25 basis point increase in interest rates would have an associated annual opportunity cost of approximately \$8 million.

Foreign Currency Exchange Risk

We conduct business on a worldwide basis through subsidiaries in 46 countries and, as such, a portion of our revenues, earnings, and net investments in foreign affiliates are exposed to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including managing expected local currency revenues in relation to local currency costs and local currency assets in relation to local currency liabilities. In October 2005, the Board of Directors adopted our Risk Management Policy and Procedures, which authorizes us to manage, based on management’s assessment, our risks and exposures to foreign currency exchange rates through the use of derivative financial instruments (e.g., forward contracts, options, swaps) or other means. We have not historically used, and do not anticipate using, derivative financial instruments for speculative purposes.

Derivatives are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, “*Accounting for Derivative Instruments and Hedging Activities*” (FAS 133). For the fiscal year ended March 31, 2007, we entered into derivative contracts with a total notional value of approximately 208 million euros and 2.5 billion yen, of which 75 million euros were outstanding as of March 31, 2007. We entered into these contracts with the intent of mitigating a certain portion of our euro and yen operating exposure as part of the Company’s on-going risk management program. These contracts did not

qualify for hedge accounting treatment under FAS 133. The derivative contracts that were entered into during fiscal year 2007 resulted in a loss of approximately \$3 million, \$1 million of which pertained to unrealized losses on the open derivative contracts as of March 31, 2007, and was reported in the "Other gains, net" line item of the Consolidated Statement of Operations for the fiscal year ended March 31, 2007. In April and May 2007, we entered into similar derivative contracts as those entered during the fiscal year 2007 relating to our operating exposures.

Equity Price Risk

As of March 31, 2007, we do not hold significant investments in marketable equity securities of publicly traded companies. Our investments in marketable securities were considered available for sale. Unrealized gains or losses on trading securities are reflected as "Other gains, net" on the Consolidated Statement of Operations and unrealized gains or temporary losses on available for sale securities are deferred as a component of stockholders' equity.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our Consolidated Financial Statements are listed in the List of Consolidated Financial Statements and Financial Statement Schedules filed as part of this Annual Report on Form 10-K and are incorporated herein by reference.

The Supplementary Data specified by Item 302 of Regulation S-K as it relates to selected quarterly data is included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Information on the effects of changing prices is not required.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934 ("Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company's management, with participation of our Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2007. Based on that evaluation, the Company's management concluded that the Company's disclosure controls and procedures were effective as of March 31, 2007. Accordingly, management believes that the consolidated financial statements included in this Annual Report on Form 10-K, fairly present, in all material respects our financial condition, results of operations and cash flows for the periods presented.

(b) Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide

reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted its evaluation of the effectiveness of internal control over financial reporting as of March 31, 2007 based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing the effectiveness of the Company's internal control over financial reporting. Based on that evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of March 31, 2007.

(c) Changes in Internal Control Over Financial Reporting

Except as otherwise discussed herein, there have been no significant changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Description of the Fiscal Year 2006 Material Weaknesses

As described in Item 9A of our prior year Annual Report on Form 10-K, management identified the following material weaknesses in our internal control over financial reporting:

- (i) The Company did not maintain an effective control environment due to a lack of effective communication policies and procedures. Specifically, (a) there was a lack of coordination and communication among certain of the Company's senior executives with responsibility for the sales and finance functions and within the sales and finance functions regarding potentially significant financial information; and (b) there were communications by certain senior executives that failed to set a proper tone, which could discourage escalation of information of possible importance in clarifying or resolving financial issues. These deficiencies resulted in more than a remote likelihood that a material misstatement of the annual or interim financial statements would not be prevented or detected and contributed to the material weaknesses in internal controls described in items (ii) and (iii) below.
- (ii) The Company's policies and procedures relating to controls over the accounting for sales commissions were not effective. Specifically, the Company did not effectively estimate, record and monitor its sales commissions and related accruals. The Company also did not reconcile its commission expense accrual to actual payments on a timely basis. These deficiencies resulted in a material error in the recognition of commission expense, which resulted in a restatement of the interim financial statements for the three and nine-month periods ended December 31, 2005.
- (iii) The Company's policies and procedures relating to the identification, analysis and documentation of non-routine tax matters were not effective. The Company's tax function also did not provide timely communication to management of its assumptions regarding certain non-routine tax matters. This deficiency resulted in a material error in the recognition of taxes associated with the Company's cash repatriation, which occurred in the fourth quarter of fiscal year 2006.
- (iv) The Company's policies and procedures relating to the accounting for and disclosure of stock-based compensation relating to stock options were not effective. Specifically, controls including monitoring controls, were not effective in ensuring the existence, completeness, valuation and presentation of the Company's granting of stock options, which impacted the Company's determination of the fair value associated with these awards and recognition of stock-based compensation expense over the related vesting periods from fiscal year 2002 through fiscal year 2006. This deficiency resulted in material errors in the recognition of compensation expense, additional paid-in capital, deferred taxes and related financial disclosures relating to such stock options, which contributed to a restatement of annual financial statements for fiscal years 2005 through 2002, and for interim financial statements for fiscal years 2006 and 2005.

- (v) The Company's policies and procedures were not effectively designed to identify, quantify and record the impact on subscription revenue when license agreements have been cancelled and renewed more than once prior to the expiration date of each successive license agreement. This deficiency resulted in material errors in the recognition of revenue, which contributed to a restatement of annual financial statements for fiscal years 2005 and 2004, and for interim financial statements for fiscal years 2006 and 2005.

Remediation of the Fiscal Year 2006 Material Weaknesses

(i) During fiscal year 2007, the following actions were taken by management with respect to the remediation of our material weakness in internal control over financial reporting related to an ineffective control environment due to a lack of effective communication policies and procedures:

- Personnel and organizational changes:
 - Appointments of a new Chief Operating Officer in April 2006, a new Chief Administrative Officer in June 2006 and a new Chief Financial Officer in August 2006;
- Reorganization of the sales function including:
 - Establishment of direct reporting of the field sales organization to the Chief Operating Officer in June 2006;
 - Appointment of a Senior Vice President Sales Operations with direct reporting to the Chief Operating Officer in June 2006;
- Implementation of recurring meetings with representation from key departments including legal, finance, operations and human resources to address operating and financial performance, as well as the identification, tracking and communication of information of potential significance to financial reporting and disclosure issues began during the quarter ended September 30, 2006; and
- Ongoing communications by management to and with the Company's employees and the provision of focused training, relating to ethics, the Company's Code of Conduct and its core values.

(ii) During fiscal year 2007, the following actions were taken by management with respect to the remediation of our material weakness in internal control over financial reporting related to accounting for sales commissions:

- Reviews of commissions accounting procedures by the Internal Audit Department;
- Appointment of a quality review team to assess the adequacy and efficacy of the business processes, IT Systems and financial oversight for the administration of sales commissions during the quarter ended June 30, 2006;
- Formalization of policies and procedures including communication and reporting responsibilities among the Company's sales, human resources and finance functions to ensure that the administration, payments of and accounting for commissions expense were coordinated commencing in the quarter ended December 31, 2006;
- Reconciliation of commission expense accruals to actual commission payments on a quarterly basis began during the quarter ended September 30, 2006; and
- Creation of a Commission Plan Committee (the "Committee"), during the quarter ended September 30, 2006, to oversee changes to the Company's Incentive Compensation Plan and related processes, in order to enhance the Company's ability to monitor, timely pay, estimate, and accrue for sales commissions. The Committee provided oversight of changes to simplify the CA Incentive Compensation Plan that took effect October 1, 2006.

(iii) During fiscal year 2007, the following actions were taken by management with respect to the remediation of our material weakness in internal control over financial reporting related to the identification, analysis and documentation of non-routine tax matters include the following:

- Review of the tax department's policies and procedures including its use of external advisors began during the quarter ended December 31, 2006;

- Establishment of new documentation and analysis requirements for non-routine tax matters to ensure among other things, that accounting conclusions involving such matters are thoroughly documented and identify the critical factors that support the basis for such conclusions began during the quarter ended December 31, 2006; and
- Formalization of communication and review of non-routine tax matters between the tax function and senior finance management began during the quarter ended December 31, 2006.

(iv) With respect to our material weakness in internal control over financial reporting related to the accounting for and disclosure of stock-based compensation relating to stock options issued prior to fiscal year 2002, the development and implementation of policies and procedures beginning in fiscal year 2002 have resulted in the timely communication of stock option grants to employees. During the first quarter of fiscal year 2007, the Company implemented procedures that resulted in the proper recognition and disclosure of stock-based compensation expense for stock options issued prior to fiscal year 2002.

(v) During fiscal year 2007, the following actions were taken by management with respect to the remediation of our material weakness in internal control over financial reporting related to accounting for subscription revenue when license agreements have been cancelled and renewed more than once prior to the expiration date of each successive license agreement:

- Formalization of policies and procedures, as well as provision of training, on the identification, quantification and recording of the impact on subscription revenue of such license agreements, which began during the quarter ended September 30, 2006.

As a result of the above measures, management has determined that the material weaknesses identified in fiscal year 2006 have been remediated as of March 31, 2007.

The Company's independent registered public accountants, KPMG LLP, have audited and issued a report on management's assessment of the Company's internal control over financial reporting. That report is included on the page set forth in the List of Consolidated Financial Statements and Financial Statement Schedule.

Changes under the DPA

As previously reported, and as described more fully in Note 8, "Commitments and Contingencies", in the Notes to the Consolidated Financial Statements, in September 2004 the Company reached agreements with the USAO and SEC by entering into the DPA with the USAO and by consenting to the SEC's filing of a Final Consent Judgment (Consent Judgment) in the United States District Court for the Eastern District of New York. The DPA required the Company to, among other things, undertake certain reforms that would affect its internal control over financial reporting. These included making progress on the implementation of a worldwide financial and enterprise resource planning ("ERP") information technology system to improve internal controls, reorganizing and enhancing the Company's Finance and Internal Audit Departments, and establishing new records management policies and procedures.

The Company believes that these and other reforms, such as procedures to assure proper recognition of revenue, have enhanced its internal control over financial reporting. Meanwhile, the Company has complied with its obligations under the DPA; and, as of May 21, 2007, the DPA has been concluded. For more information regarding the DPA, refer to the information under the heading "Audit and Compliance Committee Report — Status of the Company's Compliance with the Deferred Prosecution Agreement and Final Consent Judgment" in the Company's definitive proxy materials filed on August 9, 2006 with the SEC and to Note 8, "Commitments and Contingencies" in the Notes to the Consolidated Financial Statements contained in this Annual Report on Form 10-K.

Other Changes in Internal Controls over Financial Reporting

In the first and third quarters of fiscal year 2007, the Company migrated certain financial and sales processing systems to SAP, an enterprise resource planning ("ERP") system, at its North American operations. This change in information system platform for the Company's financial and operational systems is part of its on-going project to implement SAP at the Company's facilities worldwide, which is expected to be completed over the next few years. In connection with the Company's implementation of its ERP system for its professional services organization in November 2006, the Company experienced

various control and implementation issues impacting the Company's financial reporting for professional services. Therefore, during the third and fourth quarters, the Company implemented additional manual procedures to address these financial reporting issues and will continue to monitor the effectiveness of its internal controls and procedures on an ongoing basis and will take further actions, as appropriate.

ITEM 9B. OTHER INFORMATION.

Not applicable.