

Consolidated Q3 FY08 Earnings Call Script
January 31, 2008

Joseph Doncheski

Thank you and good afternoon everyone. I am Joseph Doncheski, Vice President of Investor Relations for CA. Joining me today are John Swainson, our chief executive officer, and Nancy Cooper, our chief financial officer.

As a reminder, this conference call is being broadcast on Thursday, January 31st 2008 over the phone and the Internet to all interested parties. The information shared in this call is effective as of today's date and will not be updated. All content is the property of CA and is protected by U.S. and international copyright law and may not be reproduced, transcribed or produced in any way without the express written consent of CA. We consider your continued participation in this call as consent to our recording.

During this call, non-GAAP financial measures will be discussed. Reconciliations to the most directly comparable GAAP financial measures are included in the earnings release which was filed on Form 8-K earlier today and the supplemental information package. In addition, we have posted a presentation to accompany this webcast. All of these documents are available on our website at investor.ca.com

Today's discussion will include forward-looking statements subject to risks and uncertainties and actual results could differ materially from these forward-looking statements. Please refer to our SEC filings for a detailed discussion of potential risks.

With that, I'll turn the call over to John Swainson.

John Swainson

Thanks, Joe

Good afternoon everyone and thank you for joining us.

I'm pleased to announce another solid quarter for CA – our fifth in a row.

Most importantly, we remain on course to finish the year with revenue and earnings per share exceeding the updated annual outlook we recently provided at our Analyst Day in December.

I feel good about our continued performance improvement and I'm particularly proud of our people for their efforts and accomplishments.

So let me begin today's call by sharing some of our third-quarter highlights. Then I'll illustrate why we're succeeding in the marketplace with some examples of how our customers are using CA technology to make their use of IT more competitive and drive their business success.

Finally, I'll talk a little bit about the current market environment and why I am confident that CA will continue its progress in becoming a faster growing, highly profitable and highly competitive company focused on world-class products and solutions built on our Enterprise IT Management (EITM) strategy.

When I'm done, Nancy Cooper will go into the details of our third quarter and our updated outlook for the fiscal year. Then we'll open up the call for questions.

In Q3 we continued to build momentum, putting CA in a solid position for the final quarter of the fiscal year:

Revenue in the quarter was \$1.1 billion;

Total bookings were \$1.2 billion;

Non-GAAP operating margin was 27%;

Non-GAAP EPS was \$0.36; and,

Cash Flow from Operations was \$233 million.

CA's more streamlined sales organization and improved infrastructure and business processes are enabling us to better identify and capture customer opportunities, which was evident in our third quarter performance.

Having a more focused and efficient organization is merely one part of the equation. It's essential to have world-class products to sell, and a compelling vision to help customers understand why CA should be their enterprise IT management vendor of choice.

As I've told you, EITM is CA's unique technology strategy that allows customers to seamlessly govern, manage and secure their IT environments. EITM allows us to position CA as a leader in the enterprise IT marketplace, and will be an important platform for us to sell new products and solutions to both existing and new customers alike, increasing CA's overall share of IT spending.

Let me give you a couple customer examples from the recent quarter:

One of the largest deals we signed in the third quarter was with Sallie Mae, the leading provider of student loans and administrator of college savings plans in the United States, and a long-time customer. CA is working with Sallie Mae to further expand their IT Service Management strategy and to help with their technology deployment. Through an extension of existing solutions including CA's Siteminder, Service Desk and Clarity, along with the introduction of several new products such as CA's CMDB, Wily Introscope, CEM and Service Catalog, Sallie Mae is addressing their business needs head-on to round out their Governance portfolio.

Another important engagement is with T-Mobile, a leading wireless provider. T-Mobile has decided to expand on its initial investment in CA's eHealth and Spectrum network performance management across its entire enterprise. With service availability being a top priority, CA's integrated offering enables T-Mobile to deliver world class network performance and helps reduce customer churn within the highly competitive telecom market.

These are just two examples of our many partnerships with large global companies helping them to govern, manage and secure their IT environments.

Now I'd like to share a few thoughts about our competitive position

First, we have a large subscription base that generally renews over three-year cycles. Those long-term commitments from our customers continue to underpin the strength and stability of CA's business.

Second, CA's products and services are used by our customers as an essential part of their operations and are vital to their business success. Our products, by and large, do not fall into the category of discretionary purchases as they help manage costs, provide a higher level of service and mitigate risk. Based on these factors, plus a continuing focus on operational improvements, I believe CA is well positioned to compete effectively in the marketplace.

With that, I'll turn it over to Nancy to take you through the details of the quarter and our updated outlook.

Nancy Cooper

Thanks John and good afternoon everyone.

I'll begin by reviewing our third quarter financials. Then I'll provide our updated outlook for fiscal 2008.

As John indicated, this marks the fifth consecutive quarter of solid results. As described to you at Analyst Day last month, CA is steadily improving its execution.

We will continue that trend through the remainder of fiscal 2008.

Beginning with bookings, third quarter total product and services bookings were \$1.2 billion compared to \$1.6 billion in the prior year, and, as expected, declined 21 percent on year-over-year basis.

As a reminder, the strength in the prior year's third quarter bookings performance resulted from three factors:

the pent up demand from the slow start in the first half of last year;

the completion of the sales force realignment at the beginning of last year's third quarter;

and the closing of six large contracts in that quarter, each over \$40 million.

Bookings are up 9 percent for the first nine months of this fiscal year from the prior year period. We now expect total bookings growth for the full year to be in the mid-teens.

During the quarter, we signed 16 license agreements greater than \$10 million which aggregated to \$303 million, compared to 18 such contracts aggregating to \$700 million in the prior year period.

This is reflected in the weighted average duration of new direct bookings of 3.16 years, as compared to 3.74 years in the prior year period.

When annualized, the year-over-year decrease from new direct bookings was 9 percent. On a year-to-date basis, annualized direct bookings increased 17 percent year-over-year.

Total revenue in the third quarter was \$1.1 billion, up 10 percent from the prior year, or 4 percent on a constant currency basis.

The increase in third quarter total revenue was primarily driven by growth in subscription revenue, which increased 16 percent from the prior year period.

As expected, maintenance fell 26 percent, largely because it continues to be absorbed into our subscription business.

Together, subscription and maintenance revenue grew 11 percent. This is a more meaningful way to look at our ratable revenue.

Revenue from professional services in the third quarter was \$92 million, down 1 percent year-over-year.

From a geographic perspective, North American revenue in the third quarter was up 5 percent over the prior year and international revenue increased 17 percent, or 4 percent on a constant currency basis. This quarter, strength in EMEA was evident in solid bookings growth as the newly formed sales team continues to gain traction relative to last year.

On a non-GAAP basis, operating expenses for the third quarter were \$800 million, compared to \$791 million in the prior year period. Currency negatively affected operating expenses by about \$30 million, or 4 percentage points.

Excluding the impact from currency, non-GAAP operating expenses would have been down 3 percent year-over-year.

As discussed at Analyst Day, we're taking more steps towards greater transparency at CA with the introduction of the Cost of License and Maintenance line item in our P&L. We feel that this change will help bring our P&L more in line with industry norms.

Non-GAAP Operating Income was \$300 million for the third quarter, compared to \$211 million in the prior year period. Non-GAAP operating margin for the third quarter was 27 percent, reflecting a 6 percentage point improvement year-over-year.

Net interest expense for the third quarter was \$10 million.

Non-GAAP income was \$192 million for the third quarter compared to \$133 million in the prior year period, a year-over-year increase of 44 percent. This translates into Non-GAAP EPS of \$0.36 compared to \$0.24 in the prior year period, which is a year-over-year per share increase of 50 percent.

Now let's turn to our GAAP expenses, which include purchased software, intangible amortization, restructuring and other. Including these items, total expenses before interest and taxes were \$851 million for the third quarter, down from \$907 million in the prior year period.

During the third quarter, we recorded restructuring and other expenses of \$22 million compared to \$32 million in the prior year period.

Now, to finish up the income statement, GAAP income from continuing operations was \$163 million in the third quarter, or \$0.31 per diluted common share, which is compared to \$52 million or \$0.10 per share in the prior year period.

Cash flow from operations in the third quarter was \$233 million, compared to \$587 million in the prior year period. The year-over-year decline was primarily attributable to lower collections from expected lower bookings.

Cash flow was also negatively affected by an investment in working capital in the third quarter, mainly due to an increase in Accounts Receivable of approximately \$170 million for the third quarter as compared to the prior year period, despite the lower bookings. The Company anticipates recovering the majority of this investment in the fourth quarter of 2008.

Additionally, third quarter cash flow benefited from a refund due to an overpayment of current year cash taxes of \$45 million.

Turning to the balance sheet, we ended the quarter with \$2.1 billion in cash and cash equivalents and \$2.6 billion of total debt, bringing our net debt position to approximately \$500 million. Total deferred subscription value balance as of the end of the third quarter was almost \$6.0 billion, up 6 percent from last year's third quarter with half from currency.

With that, I'd like to provide you an update to our full year outlook.

Total revenue is expected to range from \$4.25 to \$4.28 billion, up from our prior guidance of \$4.15 to \$4.2 billion, at the high end of our prior guidance of 3-4% growth in constant currency.

Non-GAAP operating EPS guidance is now \$1.22 to \$1.26, up from our prior guidance range of \$1.06–\$1.10. This revenue and EPS guidance is updated for currency exchange rates and assumes no acquisitions.

We are also increasing our previous GAAP EPS guidance for the year from \$0.99 to \$1.03, up from \$0.87 to \$0.91.

GAAP EPS assumes no acquisitions and includes roughly \$60 million from previously-announced restructuring plans, as compared to our prior guidance of \$35 million.

We expect cash taxes to be lower than the \$470 million previously estimated for fiscal year 2008 by approximately \$50 million.

While this is good news, cash taxes, as we've said before continue to be volatile and, timing wise, hard to predict. In addition, as we manage the business for the long-term, we are maintaining our cffo guidance of 1.05 billion to 1.1 billion. This cffo guidance includes approximately \$90 to \$100 million of restructuring payments as compared to our prior guidance of \$84 million.

We expect approximately 514 million actual shares outstanding, a weighted average diluted share count of approximately 541 million shares and a full year tax rate on non-GAAP income of approximately 36%.

And now let me turn this back to John

John Swainson

Thank you, Nancy.

As I said at the outset of this call, CA performed well in the third quarter. Our EITM strategy enables us to communicate CA's value proposition to customers in a clear and compelling way, and we are making progress in cross-selling and up-selling a broader portfolio of CA products to new and existing customers.

While the economy appears to be moving into an uncertain macro-economic environment, I'm confident that CA's customer base and product portfolio put us in an advantageous competitive position.

We continue to manage our business prudently. We are controlling costs, improving margins while at the same time focusing on delivering innovative new products.

In the months ahead, you can expect to hear from us more frequently than in recent years. We'll be seeing you at conferences and investor road shows where we'll expand on CA's perspective on the enterprise IT management marketplace.

With that, we'll open up the lines for your questions.