

Operator

Good day, everyone, and welcome to the CA second quarter 2010 earnings results conference call. Today's call is being recorded. At this time, I would like to turn the call over to Kelsey Doherty, Senior Vice President of Investor Relations. Please go ahead.

Kelsey Doherty - CA - SVP, IR

Thank you, and good afternoon, everyone. Welcome to CA's second quarter 2010 earnings call. I am Kelsey Doherty, Senior Vice President of Investor Relations for CA. Joining me are John Swainson, our Chief Executive Officer; and Nancy Cooper, our Chief Financial Officer. Also in the room and available to answer your questions, are Mike Christenson, President and Chief Operating Officer; and George Fischer, Executive Vice President Global Sales and Marketing.

John will open this afternoon's call with a high level review of the quarter and a strategic discussion. Nancy will provide more detail regarding second quarter results and provide updated guidance. We will open the call for questions before John returns with some closing comments.

As a reminder this conference call is being broadcast on Thursday, October 22, 2009, over the phone and 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 US 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, as well as in our supplemental earnings materials, all of which 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 detailed discussion of potential risks.

And with that, I'll turn the call over to John Swainson. John?

John Swainson - CA - CEO

Thanks Kelsey. Good afternoon, and thank you for joining us. Overall, we're pleased with our second quarter performance and comfortable with where we are positioned for the remainder of our fiscal year.

In the second quarter, we grew both our top and bottom line on a constant currency basis. We continued to control expenses and drive efficiencies, increasing GAAP operating margin by two percentage points and non-GAAP operating margin by three percentage points. And we continued to make investments in people and technology that will drive our business long term.

While bookings were down, this was not a surprise to us, and Nancy will give you more details in a few minutes.

For the six months, CA's performance was very good.

- Revenue grew 2% in constant currency;
- Non-GAAP operating margin improved 3 percentage points, and GAAP operating margin improved two percentage points including our first half investments in research and development and sales talent to drive future business;
- Non-GAAP earnings per share was up 11% in constant currency;
- Cash flow from operations was very strong, up 62% in constant currency;
- Our net cash position was \$1.1 billion at the end of September, providing CA with a great deal of financial flexibility
- And we repurchased \$50 million in our own stock during the quarter. We plan to continue the program in the current quarter.

Now let me talk about why we're so confident about our ability to execute in the second half.

Over the past month, I've been traveling in North America, Latin America, and Europe and I've talked to more than 200 customers. The tone of these conversations is changing. While CIOs are still cautious,

they are starting to think differently about how they spend their IT budgets. For the past year, the only new projects that were being funded were those that had immediate or near immediate business impact. Sales cycles became longer, and the level of approval required was substantial.

With some encouraging signs in the economy, CIO's are more willing to consider new technology projects that will reduce complexity, better align IT with business priorities, and automate their IT environments to drive greater efficiencies.

I get looked of questions about cloud computing and virtualizations and what benefits they can bring. CIO's have started to look to the future.

As I've said in past calls, cloud computing is quickly becoming the technology industry's new paradigm, and CA is committed to making the investments both organically and through acquisitions to be a leader in this area. While cloud computing has many benefits, it also adds considerable complexity and security issues to the enterprise. Whether you're operating an external cloud through a managed service provider, running an internal cloud, or in some cases, doing both, no amount of economic benefit can offset the business impact of losing critical data or degrading the customer experience.

So an example of the kind of acquisition that we're doing to augment our cloud management capability is the recently announced definitive agreement to acquire NetQoS, a leading provider of network performance management and service delivery solutions. NetQoS's technology enables companies to understand how they were using network bandwidth at an application level and then set priorities to insure that the most important tasks are performed with priority.

Combined with CA's eHealth, SPECTRUM, and Unicenter products, it gives CA the strongest network management suite in the industry. This is vital capability of customers and services providers are to take advantage of unified computing networks, which is an essential element of cloud infrastructure.

Equally important to our customers is addressing the question of identity management and security.

Just this week, we announced at the RSA conference in London a series of new product releases designed to help strengthen IT security, lower the cost of managing compliance, and improve enterprise wide

IT risk management. These releases are the combination of internally developed capabilities and technology through the acquisition of Orchestra earlier this year and Eurekaify late last year.

Our internal innovative machine is running at full throttle, providing new and upgraded products for the marketplace. In addition to the security announcements I just talked about, this month we will announce additional new and enhanced enterprise IT management products designed to address key growing markets. These offerings are designed to help customers achieve unprecedented application visibility across distributed and mainframe systems insuring the greatest return from virtualized environments, and better managing sustainability and carbon footprints.

This is the second major set of product announcements that we have made this year. As we are seeing the benefits of the upgrades and process changes that we made to our core development teams over the last couple of years.

Managing energy usage sustainably is also a very big issue now with our European customers and is likely to become more important in the US in the next year. To help customers deal with management reporting aspects, we recently announced CA's eco software, a comprehensive set of energy, carbon, and sustainability management solutions based on CA's SPECTRUM and Clarity products. While this market is still relatively small, some estimates say that it will grow to more than \$2 billion in the next three or four years, as carbon reduction laws are enacted around the world.

I'm proud to say we are already seeing some success.

[Tesco], the UK's biggest retailer and world's third largest grocery retailer has selected CA fulfill its commitment to reducing its carbon footprint by 50% globally. CA eco software will help Tesco streamline the process of data management, helping to reduce errors and operational expenses and improve their ability to communicate major milestones.

The last area I would like to talk about is the mainframe. CA's mainframe business unit had another very good quarter, with customers purchasing database and testing tools, security, and performance management solutions.

These are signs that both our mainframe 2.0 message and our mainframe 2.0 deliverables that were rolled out earlier this year are an excellent fit with our customer base, a base in need of a new approach to mainframe management.

And our mainframe engagements are helping us win business with other areas of the customer's IT enterprise.

Let me give you an example.

The [Regence Group] operates the largest group of Blues Cross and Blue Shield companies in the Northwestern United States, providing health insurance products to some 3 million members through a network comprised of over 40,000 providers.

Regence is a long-time CA mainframe customer with mainframe managing mission-critical applications that affect their billings, payments, claim processing, and accounts receivable. Our credibility as a provider of mission-critical mainframe software has enabled us to expand our footprint into the distributed computing space with them as well.

Just this last September regent purchased CA Siteminder, eHealth, SPECTRUM, Servicedesk, CMDB, and Service catalog and engaged CA's services team to help them replace a whole host of incumbent products from BMC that were just not delivering the value that Regents required. Regents did an exhaustive evaluation and concluded that CA was the only systems management vendor who could deliver on the promise of making IT more effective and improving service levels.

With that, let me turn it over to Nancy for a more in-depth look at the numbers. Nancy?

Nancy Cooper - CA - CFO

Thanks, John. Good afternoon everyone, and thank you for joining us this afternoon.

We had a solid second quarter, and as John has highlighted, our constant currency revenue growth in combination with a disciplined approach to managing the cost profile of the business, leave us well positioned for the second half of fiscal year 2010.

I'm going to start the review of our financial performance with bookings. As you remember, second quarter was expected to be down in a very difficult year over year compare, and it was.

Total bookings were \$947 million, down 37% in both constant currency and as reported. North America bookings were down 40% in constant currency and 41% as reported. While international bookings were down 30% in constant currency and 29% as reported.

Average duration was 3.3 years, down from 4.1 for the same period last year. Annualized bookings were \$262 million, down 23% in constant currency and 22% as reported. There were a number of factors that affected bookings in the second quarter.

As I indicated previously, we knew the second quarter was a difficult compare. Fiscal year 2009 second quarter bookings included a very large deal with a managed service provider valued at more than \$400 million. Excluding that deal total bookings were down 10% on a constant currency basis and 11% as reported. While North America was up 5% in constant currency and 4% as reported.

We also had a light inventory of both contract expirations and larger deals in the second quarter of this year, particularly in Europe. This was expected as lumpiness is a natural part of our inventory of renewals.

We continued to see weakness in our services and products for small and medium sized and consumer businesses, which have been impacted by the macroeconomic environment. In services, we have recently taken steps to drive improved performance through a focus on profitability, better alignment with our sales team, and additional services offerings to drive more revenue.

And finally, from a geographic perspective, we were very encouraged by the bookings growth in both Latin America and APJ. Our results showed good progress due to go to market changes that we have been implementing in these regions. They also seem to be benefiting from improving market sentiment.

In Europe, where we are seeing a better tone, we are looking to drive CA specific initiatives that will allow us to take advantage of a macro recovery and a strong renewal portfolio in the back half of the year. Many of these initiatives are things we have seen work quite well in North America and can be translated to Europe. These include three things.

- Adding new sales and product specialists to the team, and we are having great success hiring software talent.
- Reallocating the sales capacity across a larger number of target customers,
- And we're sharpening our focus on products with fast return on investment.

We have also enhanced our management of the region with our recent Europe implementation of SAP. More sales expertise, better alignment, and deeper insights should provide a natural tailwind in the back half of this fiscal year. Our success in North America gives us the experience and confidence to believe that this is an execution model that works.

Moving on to our backlog results.

Year over year, total revenue backlog of \$7.7 billion increased 9% in constant currency and 10% as reported. With both the current and the noncurrent portions growing on a constant currency basis. This is the sixth consecutive quarter we have seen year over year growth in current revenue backlog on a constant currency basis, which grew 2% this quarter on a constant currency basis and 3% as reported.

We believe that revenue backlog is the best means of determining revenue estimates from a modeling perspective. We provide this information including an amortization schedule as part of our financial supplement, which is currently posted on our Investor Relations website.

Year over year total billings backlog of \$4.5 billion was up 14% in constant currency and 16% as reported.

We continue to see DSO's trending down year over year, reflecting our continued ability to collect from customers in a timely manner.

Turning to revenue. Total revenue was \$1.072 billion, up 1% in constant currency and down 3% as reported.

From a geographic perspective, North American revenue was \$628 million, up 3% in constant currency and 2% as reported. International revenue was \$444 million, down 2% in constant currency and 10% as reported. We recorded a negative foreign exchange impact on international revenue of \$42 million during the quarter.

Subscription and maintenance revenue was \$973 million. Up 4% in constant currency and flat as reported. Subscription and maintenance revenue, which is completely ratable, was 91% of total revenue for the quarter.

Revenue from professional services was \$71 million, down 21% in constant currency and 24% as reported.

Revenue from professional services was 7% of total revenue for the quarter. Overall, the second quarter decline in professional services affected year over year revenue growth by more than 200 basis points.

Revenue from software fees and other was \$28 million, down 27% in constant currency, and down 26% as reported. This reflects a difficult year over year comparison and underperformance in our small and medium size and consumer business channels.

We are encouraged that revenue excluding services and small and medium size and consumer businesses was up 3% in constant currency and down 1% as reported.

Now I'd like to turn to the remainder of the income statement, starting with our non-GAAP results.

In the second quarter, operating expenses were \$705 million, down 3% on a constant currency basis and 7% as reported. We are pleased that we have been able to grow revenue year over year in constant currency at the same time expenses decreased.

Operating income before interest and taxes was \$367 million, up 8% on a constant currency basis and 6% as reported. For the quarter, our non-GAAP operating margin was 34%, an increase of 300 basis points year over year. Excluding the 3 percentage points of stock-based compensation, our non-GAAP operating margin was 37%. Please note that we expect margins to be in the 32% to 33% range for fiscal year 2010, which reflects the back end-loaded nature of our annual expense structure.

Earnings per share were \$0.42 cents, up 8% in constant currency and 5% as reported. We continue to experience a currency headwind of approximately \$0.01 during the second quarter.

Both GAAP and non-GAAP operating expenses in the second quarter included an approximate \$0.01 impact of costs related to John's retirement. We expect the majority of the balance of these expenses of approximately another \$0.01 to be incurred over the second half of the year.

Turning to GAAP results, which as presented, include purchased software intangible amortization, restructuring and other and gains and losses on hedges that do not mature in the quarter.

GAAP operating margin was 32%,. GAAP net income was \$218 million, up 14% in constant currency and 8% as reported. While earnings per diluted common share were \$0.41 up 11% in constant currency and 5% as reported.

Our effective GAAP tax rate for the second quarter was 31.2%, our effective non-GAAP tax rate was 35.5%. We continue to believe that longer term we are in a path to a tax rate aligned with industry norms, which is in the lower 30% range.

Turning to cash flow from operations.

Cash flow from operations in the quarter was \$120 million. This compares with \$218 million in the second quarter of 2009. For the six months ending September 30, 2009, cash flow from operations was \$382 million compared to \$272 million in the year ago period. An increase of 62% in constant currency and 40% as reported year over year.

Now I'd like to turn to a review of our balance sheet.

CA ended the quarter with \$3 billion in cash and cash equivalents and \$1.9 billion in total debt, bringing our net cash position to approximately \$1 billion.

As a reminder, we have approximately \$636 million in debt maturities due in December of this year, and we expect to pay these obligations down at maturity with cash on hand.

During the second quarter, we purchased just over 2 million shares for a total of approximately \$50 million. This leaves just under \$200 million in the remaining approval and we continue to be in the market.

With that, I'd like to update our guidance for fiscal year 2010. Given the recent foreign exchange volatility, we continue to provide guidance on a constant currency basis, which we believe better illustrates the operational performance of the Company.

As a reminder, the currency headwind in the first half of the year becomes a tailwind.

Previous forecasts indicated that we would be at the high end of our guidance range. At this point, we are forecasting revenue growth of 2% to 4% in constant currency, consistent with what we said at the beginning of the year. This update is based on continued softness in services and our small and medium size and consumer businesses. At the same time, we are raising the high end of both our GAAP and non-GAAP diluted earnings per share guidance to 18% to 27% and 6% to 14% in constant currency, respectively.

Therefore, guidance for fiscal year 2010 is as follows.

- Total revenue growth is expected to be in the range of 2% to 4% in constant currency. At current exchange rates, this translates to reported revenue of \$4.3 to \$4.4 billion. The range on non-GAAP operating margins is expected to be 32% to 33%. Or 34% to 35% when adjusted for stock-based compensation.
- We continue to expect our GAAP and non-GAAP tax rate to range between 35% and 36% in this fiscal year. This represents a 100 to 200 basis point improvement over fiscal year 2009. As a quick reminder, certain discrete items positively impacted our third quarter 2009 GAAP and non-GAAP tax rates, reducing these

rates to 30% and 29%. These discrete items are not expected to recur in third quarter of 2010.

- GAAP diluted earnings per share growth in constant currency is expected to be in the range of 18% to 27%. At current exchange rates, this translates to reported GAAP diluted earnings per share of \$1.47 to \$1.58.
- Non-GAAP diluted earnings per share growth in constant currency is now expected to be in the range of 6% to 14%. At current exchange rates this translates to reported non-GAAP diluted earnings per share of %1.60 to %1.71, and
- Cash flow from operations is expected to grow at 12% to 19% in constant currency. At current exchange rates, this translates to reported cash flow from operations of \$1.3 to \$1.4 billion.

Except as previously stated, guidance reflects September foreign exchange rates and includes a partial hedge of operating income. Guidance does not include the impact of any material acquisitions.

We expect approximately 517 million actual shares outstanding and awaited average diluted share count of approximately 535 million shares. Please note that share guidance provided this afternoon includes assumptions regarding the impact of our convertible notes, which come due during the December quarter and reduces share count in that quarter by 23 million shares.

Guidance does not include any impact from future stock repurchases.

So once again, thank you for joining us this afternoon. I am pleased with our first half results, and we look forward to taking your questions. We will now turn the call over to Kelsey. Kelsey?

Kelsey Doherty - CA - SVP, IR

Thank you Nancy. As the operator's pulling for questions, I would like to inform you that CA is presenting at the Goldman Sachs Data Center Techtonics Conference on November 11th in New York City and the Credit Suisse Annual Technology Conference on December 2nd in Scottsdale, Arizona. I'd also like to invite you to our sales, go to market, and customer panel event hosted by George Fisher. The event is being held on December 10th in New York City. RSVPs are required,

to please contact us CA's IR team if you are interested in joining us. Operator, please pull for questions now.

QUESTION AND ANSWER

Operator

(Operator Instructions). Our first question comes from Phil Winslow with Credit Suisse.

Phil Winslow - Credit Suisse - Analyst

Hi guys. Just wondering if you could give a little more clarity on the distributed versions of mainframe business, just what trends you're seeing. As we think about just the renewal cycle in your mainframe business, sort of where do we stand in that and how do you expect that to trend over the next few quarters? Thanks.

Nancy Cooper - CA - CFO

Sure Phil. We're very much encouraged by both our distributed and mainframe cycles. Mainframe 2.0 has been very well received. We think deciding to invest in the mainframe has been a distinguishing decision on our part and was very much the right thing. On distributed, we have been very much encouraged by the reception we have got on the key platforms in our distributed business, particularly in light as we think their foundational for the trends we're seeing in virtualization and the cloud. On the mainframe --

John Swainson - CA - CEO

Phil, I just add as we have talked on these calls before, our mainframe renewal cycle tends to follow about a three year pattern. It's been roughly 18 months since IBM announced the [Z 10] family, so we're about halfway through that total process of renewing our mainframe customers. So we expect to see a continuation of strength in the mainframe renewals for the next four or five quarters.

Phil Winslow - Credit Suisse - Analyst

Then also just one longer term question. When you think about growth and your focus on growth strategy, how should we expect to balance organic versus acquired growth?

Nancy Cooper - CA - CFO

Sure. Our long-term guidance for top line growth has been 6% to 8% with one to two points of that from acquisitions, Phil.

Phil Winslow - Credit Suisse - Analyst

Great, thanks guys.

Nancy Cooper - CA - CFO

Thank you.

Operator

We will move on to Michael Turits of Raymond James.

Michael Turits - Raymond James - Analyst

Hi guys. First of all, it seems that the subscription revenues when up pretty nicely at 3%, close to 4%, which is high end of the range. But it was SNB and professional service that dragged things down. Those two segments have been kind of weak for sometime. What's the strategy there? Do you just let pro serve go down for a while and (inaudible) business. What do you do with SNB? Is there something, are you committed to that, how do you turn it around?

Nancy Cooper - CA - CFO

Let me just level set the subscription and maintenance revenue grew 4%. What we had is when we combine that with our core business with the perpetual it ends up being 3%. And I'll turn it over to Mike to talk about what we're doing in services.

Michael Christenson - CA - COO

Michael, as you know, last year and really through the beginning of this year, we made a decision in the soft market to avoid what I call price sensitive nonimplementation services. And that's what kind of took down our bookings last year, and we continue to see that through the first couple of quarters this year. With the improved tone in the market that we have been seeing really since we -- since the month of September started and we got back from the European holidays and

so on, we want to make sure that we're not missing any revenue opportunities. So we have begun to more aggressively manage the services businesses. First, we have tightened the alignment with sales. Obviously sales sells the services, so we have made sure that that connection is a little more aggressive than we have had in the past.

Number two, as Nancy mentioned on the call, we want to get a bigger share of the implementation related business when we sell software. Sometimes the customer does it, sometimes they have another partner who does it, and we have tried to be a little more aggressive in getting our share of that business. The third is we are driving faster implementations with our standard implementation offerings, and what this does is it converts the bookings to revenue a little bit quicker than you might otherwise. And then last, we have been focusing more on selling some of our non implementation services offerings. Some of the things that we deemphasized last year now that customer budgets are starting to loosen up, we want to make sure we get our share of that business.

Kelsey Doherty - CA - SVP, IR

Great. Michael, do you have a follow up question?

Michael Turits - Raymond James - Analyst

I do absolutely. On linearity on cash flow for the year, you did 28% in the mid-point of your range in the first half of fiscal 2010, which is good, it's actually above the last couple years. You look like you're in good shape relative to the full year target. How do you see linearity in the third quarter. Typically you have done 35%, 36% in the first nine months here. How do you feel about where you should end up with linearity?

Nancy Cooper - CA - CFO

Sure. Michael, we feel very comfortable with our full year guidance of \$1.3 to \$1.4 billion. And remember, you have heard Mike mention a number of times that we're managing the portfolio to get the right economics, so you don't want to predict what the linearity is in the quarter because you want to make sure you're managing this for the right outcome.

Kelsey Doherty - CA - SVP, IR

Okay, great. Thanks Nancy. Next question please.

Operator

We will move to John DiFucci with JPMorgan.

John DiFucci - JPMorgan - Analyst

Thank you. I was wondering if you could give us a little bit of clarification, because in the press release, and I think you have said a few times in your prepared remarks, that you're seeing some improvement out there. When you look at bookings, even if you exclude that large deal from last year and you look at cash flow, they're both down year over year. Realizing -- I know your average term is three years or a little bit more, but I mean the bookings number looks a little soft relative to what you have been doing. I just wondered -- even like last quarter which -- the environment out there was certainly as difficult as it was this quarter or around that, you actually showed improvement in both cash flow and booking. If you could comment on that please.

Nancy Cooper - CA - CFO

Sure, let me just give you kind of number set, then I'll turn it over to Mike and George. If you take out CSC, you will see that bookings were down 10% year over year, and then if you normalize for the duration, that divides that in half. And then the commentary, which I'll turn over to Mike and George, is on the nature of the portfolio which we're carefully renewing.

Michael Christenson - CA - COO

John, as you know, we schedule these big renewals and manage it on a portfolio basis. And this was a quarter where it was a little bit lighter than last year. We have a nice ramp going into the December quarter and the March quarter. So again, it was a little light on deal size. We were very pleased with our renewal yields. This was -- of the ten quarters with our new portfolio management system, this was the highest yield that we have had since we put that process in place.

John DiFucci - JPMorgan - Analyst

Okay, that's --

George Fischer - CA - EVP, Global Sales and Marketing

Hi, John, this is George Fischer. Yes, I just wanted to comment a little bit on the confidence in the second half pipelines across the geographies, they're very solid, and we're very comfortable that we're well positioned to execute in the second half of the year.

John DiFucci - JPMorgan - Analyst

Okay. If I can follow up on that George. George or Mike. When I look at Europe that looks real surprising. Nancy talked about some of the initiatives you have going on there, but I think bookings were down 30% year over year again. Maybe if you can comment on, seeing as you do have some different initiatives going on there I would assume that you weren't happy with that and perhaps the yield there wasn't as good as you had hoped. If you could comment on that and let us know at least in that region how things look for the pipeline in the second half.

Michael Christenson - CA - COO

I'll start, then I'll pass it over to George who was most recently there. It was the weakest region in the September quarter. That is typically the case, but it was a little weaker this year than it has been historically. On the other hand, the tone, again, because people have gotten back from their summer holidays, in the month of September and early October, has been very good. We had the team in last week to review first half performance and plans for the second half, and I can tell you, as George, said the commit, which is roll up of our managers and what they believe they can do in the second half of the year, is up and increasing, and the pipe, which is the feedback that we get directly from the front line sales rep, is up and increasing. And both of them cover the plan that we have committed to here.

As Nancy mentioned, we have had kind of a strategy in North America that we began rolling out more aggressively in [Amea], which is pushing more of our sales resources to the front to forward to cover more of our target accounts more aggressively. We have focused them on the products that we know will sell in this market and that is the products that give customer a fast pay back. And then again, as Nancy mentioned, we have been recruiting what George and I call fast ramping sales professionals. And those are proven performers from our competitors who have a familiarity with our products and their

market so they hit the ground running. I'll let George kind of give you some color from his last visit.

George Fischer - CA - EVP, Global Sales and Marketing

Yes, I definitely want to confirm that the tone is improving, the pipelines are improving, and many of the products that are very best right now are on the top of mind of CIO's across Amea, so it's a good tone and its improving. We have been very fortunate, we have been able to aggressively attract some very qualified technical sales and marketing talent. We're now adding that into the market now, and it's looking very good, as Mike said, for better coverage across a broader set of clients.

Kelsey Doherty - CA - SVP, IR

Great, thanks. We will take the next question please.

Operator

That will come from Katherine Egbert from Jeffries.

Katherine Egbert - Jeffries - Analyst

Hi, good afternoon. I have a question for George. What do you think you're missing in the product portfolio, what would you and your team love to have?

George Fischer - CA - EVP, Global Sales and Marketing

When you ask someone in sales what they always want more, but right now I am more comfortable than ever that our product lines not only with quality but right in the sweet spot of this intersection in the cloud. It's great for us, being able to manage networks and infrastructure in a fantastic way is what people are looking for to get into the clouds. So across the board with mainframe, security, infrastructure management, some of our governess products, we have never had more to offer for the environment. Of course, as you know, it's been a tough economic environment. All of these products really resonate with CIOs looking to optimize service levels but also cutting costs. I'm pretty pleased with what's happening in the integration and the quality and what I have to offer today.

Katherine Egbert - Jeffries - Analyst

Okay, thank you. Then Nancy what are you assuming for an exchange rate in the December quarter, and then how much of the revenue guidance going back down then a little bit is due to currency? Thanks.

Nancy Cooper - CA - CFO

Katherine, all exchange rates are assumed to be the September 30th rate. And so what we did is we gave you guidance with the numbers we're reporting based on those rates. As I said earlier, it is helpful that what was a headwind for the first half of the year will be more helpful in the second half of the year.

Kelsey Doherty - CA - SVP, IR

Great, thanks. We will take the next question please.

Operator

We will move on to Abhey Lamba with ISI.

Abhey Lamba - ISI - Analyst

Thanks. Mike, can you talk about when we look at your renewal portfolio in the second half, are they evenly spread out for the rest of the year or more weighted in one quarter or another. What are your expectations for contracts for the rest of the year. Then I have a follow up please.

Michael Christenson - CA - COO

Today they are evenly spread between those two quarters. However, I do believe that there's a possibility that some of those March quarter customers may want to come into the December quarter, that's just a guess at this point. I think that given all that's gone on in this year people are starting to look at year to year planning, and I would guess that some might come in a little early. In terms of the general scheduling, roughly 60% of the year's portfolio is in the back half. So - and again they're evenly spread.

Kelsey Doherty - CA - SVP, IR

Okay. Great.

Abhey Lamba - ISI - Analyst

Got you. And Nancy, quickly, can you talk about mainframe and distribution segment margins. If we look at your competitors' margins we get basically negative margins for your distribution business, which seems fairly low. Any color on that would be helpful.

Nancy Cooper - CA - CFO

We don't break out the contribution margins for mainframe and the distributive. But I really think our investment level is quite different than our peers. We have views this as a really good opportunity in the mainframe, and we actually increase our development spending by about 10% in 2010. And we really think that was forward looking in terms of initiatives like mainframe 2.0 which is really facilitating utilization of a very sticky platform. And when we talk to our customers, they're making us believe that was exactly the right decision to make. So we are very encouraged with our performance on the mainframe. Turning over to distributed, there are two things to think about. We have been rationalizing our distributed platform for the last couple of years and we will continue to do that. And the second thing, if you think of any software business model, it is a function of how much maintenance is in that business model. And what we have here is in our distributed business, it really started in the 2005, 2006 timeframe, and so we're at the very beginning of large building maintenance business, which is very profitable.

Kelsey Doherty - CA - SVP, IR

Great. Before we go to the next question, actually, Mike wanted to follow up from Abhey's first.

Michael Christenson - CA - COO

No it was actually -- Nancy hit it on the distributed initiative. I wanted to make the point where we're taking a good hard look at where are the growth opportunities with our distributed product portfolio and make sure we look at them as growth opportunities and fund them appropriately. But where are just hard core maintenance opportunities where our challenge is efficiently keep that technology running, keep those customers generating return on that investment, but it doesn't need to be the level of spending for -- that we would typically see for a growth product.

Kelsey Doherty - CA - SVP, IR

Great, thanks. Next question please.

Operator

We will take our next question from Todd Raker with Deutsche Bank.

Todd Raker - Deutsche Bank - Analyst

Hi, guys. First question I was hoping you could update us on the CEO search process.

John Swainson - CA - CEO

Hi Todd, it's John. I'm probably the most appropriate one to do the update. The board committee has met a number of times. They have met with a number of outstanding candidates. I understand from talking to them that they are very pleased with those discussions, which are continuing, and they will -- when there's something to an announce, they will an announce it.

Todd Raker - Deutsche Bank - Analyst

Okay. Then from a broader perspective John, since you met with so many customers this quarter, there seems to be a sense IT spending environment is stabilizing and getting healthier. Yet you seem to be backing off the high end of guidance range. Can you talk about what you're seeing from a spending perspective. How you think the next 12 months may play out?

John Swainson - CA - CEO

Let me remind you of a couple of things. What we're backing off of can be attributed to two things, one is services, as Nancy said, 200 basis points attributable to that. And the second is in the small and medium business segment where we have products like [ARCserve] which are clearly -- in that segment clearly not seeing the improvement yet that we're seeing in our larger enterprise customers. Having said that, what we saw in the first half of this year was people may have had a budget but they sure as heck weren't spending it. What we have seen in the last month or two, as Mike said, after they kind of came back from vacation, realized that the economy was starting to improve, we have seen a different tone in the discussions, they're starting to have more

strategic discussions with us about products that perhaps have a slightly more strategic horizon than just something that pays back in the last year. So that's the thing that encourages us a great deal in addition obviously to the opportunity that comes when we have a portfolio renewal event, which is also it an opportunity to go to a customer and have a conversation about what else we can sell them. So the strong portfolio renewal that we got in the second half and the strengthening economy are both things that give us some confidence.

Kelsey Doherty - CA - SVP, IR

Great. Thanks, John. Next question please.

Operator

We'll hear from Sarah Friar with Goldman Sachs.

Sarah Friar - Goldman Sachs - Analyst

Thanks for taking my question. So in that SNB area it's always been a little bit of a struggle for CA, you're clearly much more high end enterprise focused. Are you trying to decide whether or not that's still an area you want to go after, and thinking the go to market strategy on it, or ultimately is that just less interest and so therefore you're letting it atrophy a little? I'm just wondering how much is your decision versus a customer decision right now.

John Swainson - CA - CEO

Well, we don't let \$100, \$200 million markets atrophy. But there are different dynamics going on in the marketplace, Sarah. And I'll turn it over to Mike for his comments. We're just not quite seeing the same demand from the small customers that we were seeing from the large customers. And I think that's got to do with the economy more than anything else.

Michael Christenson - CA - COO

I would agree with that Sarah. I would also add that we describe it as small to medium size business. It's probably more accurately described as low price point. These are much lower end technologies than the core products that CA sells into the enterprise market. So that -- those lower ticket products have had a lot of pressure really across the whole market. We have -- we always look at it, we always

make sure we're investing appropriately, and as John said, preserving or growing these investments. Today particularly with respect to ARCserve there's some very interesting opportunities as the market evolves, cloud based storage and so on, that we want to make sure that we're positioning these investments, not for what they have been doing, but what they're capable of doing, and that's been where our time has been spent in reviewing both of those businesses.

Kelsey Doherty - CA - SVP, IR

Great thanks.

Sarah Friar - Goldman Sachs - Analyst

Just to confirm though, it sounds like you're still committed there. That's not a divestiture area or anything, that is still something you view as a growth driver longer term.

Michael Christenson - CA - COO

What I would say is we're still committed to both of those businesses. They are good, healthy, profitable businesses for us. We believe there are some emerging growth opportunities that we could use those assets to take advantage of going forward.

Kelsey Doherty - CA - SVP, IR

Great. Next question please.

Operator

Richard Sherman at MKM Partners has that question. Richard, your line is open.

Richard Sherman - MKM Partners - Analyst

Yes, this is Richard, can you guys hear me?

Operator

Yes.

Richard Sherman - MKM Partners - Analyst

Sorry about that, John. Any update on the brick region, how things are going in kind of India, China, some of the higher growth emerging market, I wanted to check in on that.

George Fischer - CA - EVP, Global Sales and Marketing

Yes, hi. This is George Fischer. John will follow up with some more color. He's just returned from some of those areas. But we're very pleased with what we have been doing with Latin America in the last few years. We're getting substantial growth in the public sector and financial sectors of Brazil. Some very good step forward. We also have a very good business throughout the Andean and Mexico region, so good coverage there. In APJ we have seen some uncharacteristic strength in Japan, some growth areas, and then very nice work through Pacific region Australia. I think John can comment and Mike on India, also very good. So we were encouraged with the interest and improving economy in those areas and also the traction on some of the products that are very best are selling well in those areas.

Michael Christenson - CA - COO

Yes, let me add India remains our biggest single growth market. And while our business area is relatively small, we do expect significant growth to continue there. The economy, as you know, did slow down to a slight degree, but growth remained positive. It looks like it is starting to ramp back up again, and we think that's an encouraging sign. We do not -- we have not chosen to make a large number of investments in eastern Europe and Russia at this time. We continue to look at the most effective way to do that. We haven't found a model that works for us yet. I am encouraged to tell you that our relationship with the Indian outsourcers and Indian IT companies continues to be very strong, and both domestically within India as well as around the world, we're doing a lot of work with those (inaudible) and those companies.

Richard Sherman - MKM Partners - Analyst

Very good. And then maybe a follow up. If you could give us an update on SNB market. I was kind of a little bit lost. How much is SNB impacting growth rate as a number of basis points being hurt by SNB. Then I was kind of loss on lower price point products. I mean -- to me the price point seems somewhat irrelevant relative to the end market that you're servicing. You can sell low price point products to very small customers or very large customers. Maybe if you could drill in on

the SNB market, have you having weakness in the SNB market or is it some of your smaller products aren't selling as well. When would SNB likely recover as you look in your pipeline?

Michael Christenson - CA - COO

It's Mike. I'll let Nancy comment on the number element. Our direct sales force -- so when we make the distinction between small and medium size businesses and the price point conversation that I introduced a moment ago. Our direct sales force is focused on selling very sophisticated enterprise class solutions to big enterprise customers. That's a very different market and that's the core strength of CA. Security, systems management, governs for enterprise customers. These --what you could call small to medium size business, lower price point or volume products are typically less than \$5,000, \$2,000, \$1,000 software sales through distributors, value added resellers, and so on. It's a very different sales process, you're right. It is a broader market, so it can go into the enterprise, but it covers really the whole universe. When we look across, what people are focused on, what our customers are spending money on, they continue to spend money where they're spending it on those big strategic solution sales, but they have been deferring more aggressively those smaller ticket internet threat protection products or backup products that are just smaller ticket, more broader market coverage, volume distribution type products.

Nancy Cooper - CA - CFO

And Rick, that's why earlier when I made the comment our core business is growing at 3%. So you look at reported as 1% and the impact of these businesses that Mike just described plus services took it down to 1%.

Kelsey Doherty - CA - SVP, IR

Great, thanks. The next question will actually be our last question, then we will wrap it up.

Operator

That will come from Scott Zeller with Needham & Company.

Scott Zeller - Needham & Company - Analyst

Hi. Thanks. On the NetQoS acquisition wanted to see how that will be sold in the field. Will it be a perpetual sale?

Nancy Cooper - CA - CFO

It's -- yes, we would intend to that Company is run current business on perpetual basis as does most of the industry for those kind of products. One of the good things we have about CA is we are going to be able to preserve the perpetual nature and be more competitive being able to do that.

Scott Zeller - Needham & Company - Analyst

Thank you.

Nancy Cooper - CA - CFO

Thank you.

John Swainson - CA - CEO

Let me close, it's John, by saying again that we're very confident in our ability to achieve the second half and full year targets that you have heard us talk about today.

Looking ahead for the next six months, we have got:

- A strong healthy renewal portfolio that represents significant opportunities for new sales.
- We have a strong new license sales pipeline.
- We have a broad portfolio of innovative products that are very focused on optimizing the effectiveness of IT and helping customers deliver IT as a service at the lowest possible cost.
- CA has built a competitive cost structure and we have a determination to continue to make improvements in that structure.
- We have a sales force that is striving to make their customers successful using our technology.

On a personal note, this is my last earnings report as CACO. As all of you know, I'm retiring at the end of the calendar year. I'd like to thank you for your continued support of CA. The Company has come a long way in the last five years. Together the 13,000 employees of CA have accomplished much. Taking a Company that was battered and struggling to one that is now the clear leader in the enterprise IT management software market. I'm very proud to have been part of that effort, and I can assure you that I am leaving behind a strong and focused team. When I leave CA's management team in a few months, I will become one of you, a CA shareholder with high expectations for future performance. Thank you very much.

Operator

Again, that concludes our conference, We thank you for joining us today.

CA, Inc.
Reconciliation of Projected GAAP Operating Margin to
Projected Non-GAAP Operating Margin
(unaudited)

	Fiscal Year Ending March 31, 2010	
Projected GAAP Operating Margin Range	29%	to 30%
Non-GAAP Adjustments, Net of Taxes:		
Purchased Software and Intangibles Amortization	3%	3%
Non-GAAP Projected Operating Margin Range	32%	to 33%

CA, Inc.
Reconciliation of Projected GAAP Operating Margin to
Projected Non-GAAP Operating Margin (Excluding Projected Stock Based Compensation)
(unaudited)

	Fiscal Year Ending March 31, 2010	
Projected GAAP Operating Margin Range	29%	to 30%
Stock Based Compensation	2%	2%
Projected GAAP Operating Margin Range (Excluding Stock Based Compensation)	31%	to 32%
Non-GAAP Adjustments, Net of Taxes:		
Purchased Software and Intangibles Amortization	3%	3%
Projected Non-GAAP Operating Margin Range (Excluding Stock Based Compensation)	34%	to 35%