

# FINAL TRANSCRIPT

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**CA - Q2 2011 CA, Inc. Earnings Conference Call**

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Oct. 21. 2010 / 9:00PM, CA - Q2 2011 CA, Inc. Earnings Conference Call

## CORPORATE PARTICIPANTS

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**Bill McCracken**

*CA Technologies, Inc. - CEO*

**Nancy Cooper**

*CA Technologies, Inc. - CRO*

**George Fisher**

*CA Technologies, Inc. - EVP & Group Executive, Worldwide Sales and Operations*

**David Dobson**

*CA Technologies, Inc. - EVP & Group Executive - Customer Solutions Group*

## CONFERENCE CALL PARTICIPANTS

**Operator**

**Gregg Moskowitz**

*Cowen and Company - Analyst*

**Phillip Rueppel**

*Wells Fargo - Analyst*

**Shaul Eyal**

*Oppenheimer & Company - Analyst*

**John DiFucci**

*JPMorgan - Analyst*

**Michael Turits**

*Raymond James - Analyst*

**Brian Thackray**

*Deutsche Bank - Analyst*

**Matt Hedberg**

*RBC Capital Markets - Analyst*

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*Goldman Sachs - Analyst*

**Robert Chin**

*Citigroup - Analyst*

## PRESENTATION

**Operator**

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

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**Kelsey Doherty** - *CA Technologies, Inc. - SVP - IR*

Thank you and good afternoon, everyone. Welcome to CA Technologies second-quarter fiscal 2011 earnings call. Joining me today are Bill McCracken, our Chief Executive Officer, and Nancy Cooper, our Chief Financial Officer. Also on the call and available to answer questions are David Dobson, our Executive Vice President and group executive, customer solutions group, and George

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Fischer, Executive Vice President and group executive worldwide sales and operations. Bill will open the call with an overview of the quarter then Nancy will review our second-quarter results and affirm full-year guidance. Bill will return to conclude and we will take your questions.

As a reminder, this conference call is being broadcast on Thursday, October 21, 2010, over the telephone and the internet. 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 Technologies and is protected by US and international copyright law and may not be reproduced or transcribed in any way without the express written consent of CA Technologies. We consider your continued participation in this call as consent to our recording. During this call non-GAAP financial measures will be discussed. Please note, as we told on you the last earnings call, all non-GAAP operating measures will be reported, excluding share-based compensation expense, on an ongoing base. Prior-period non-GAAP metrics also reflect this change for comparative purposes. In addition, guidance provided this afternoon reflects the effect of AFC, 260-10-45, which became effective in 2009. For further information, please reference footnote six and table five in the press release.

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 a detailed discussion of potential risks.

With that let me turn the call over to Bill.

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**Bill McCracken** - CA Technologies, Inc. - CEO

Thanks, Kelsey, and good afternoon to everyone and thanks for joining us. I am pleased to announce that CA Technologies had a good second quarter. These results demonstrate that we are making progress. Our strategy to manage and secure physical, virtual and cloud environments is the right strategy and the changes we made to our organization and our focus on rigorous execution are beginning to pay off. Year-over-year revenue grew 5% in constant currency and was at the high end of our revenue expectations. Non-GAAP operating margin was 35%, reflecting the planned dilution from acquisitions that were closed during fiscal 2010. Even with these investments, non-GAAP EPS was up 10% in constant currency. Cash flow from operations was up 11% in constant currency and it met our expectations. And finally, both current and total revenue backlog grew, a good indicator for me of our future revenue growth.

Let me give you a little insight about our sales performance within the business book during the quarter. Total new product sales and capacity grew at high single digits year over year. Within this our distributed products delivered their strongest new sales performance in ten quarters. Even more satisfying is the breadth of demand across our portfolio. Project and Portfolio Management and Identity and Access Management both grew new sales of products double digits, with Service Assurance tripling year over year. It was a record quarter for Security, specifically identity and access management. We were also pleased that we were able to achieve this new sales growth despite a significant decrease in mainframe capacity sales. This was due to the nature and mix of our renewal portfolio in the quarter, which was weighted toward distributed. Finally, given the lumpy timing of our renewals I look to our renewal yield to judge the health of our portfolio. Our renewal yield this quarter was in the low 90s, consistent with previous quarters. As we have said over the past few quarters the renewal portfolio increases in the second half of fiscal 2011 compared to the first half and we expect momentum in mainframe to build, as well. This, combined with our strong first-half performance, gives us confidence in our ability to achieve our full-year outlook, which we are reaffirming this afternoon.

At the end of last quarter's earnings call I highlight our operational priorities. They continue to be increasing the number of freestanding sales with new products; responding to customer demand in growth geographies and emerging enterprises; and continuing to align the organization to be more responsive to customers' needs and emerging trends. I believe these priorities

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will help us unlock the value of CA Technologies and while we are not yet done, we did make very good progress against these objectives during the quarter.

Let me first address freestanding sales. We look at this in terms of how we engage our customers. Are we becoming less dependent on a renewal cycle as a compelling event to sell new products to our customers? Freestanding sales give us the opportunity to increase our share of wallet through both cross-selling to current customers and the addition of new customers. Our success can be seen in our progress in new product sales, and we expanded our footprint in more than 100 new major market accounts this quarter. Another proof point is our success with emerging technologies like Virtualization Management, which are driving purchases across the portfolio. For example, the US Army made a significant investment across Project and Portfolio Management, Service Assurance, and Virtualization Management and Automation Solutions. Rooms To Go purchased Virtualization Management integrated with infrastructure management, and customers like Logicalis are already using our Virtualization Management and Automation technology to deliver one of the first Cisco UCS hybrid hosted and on-site cloud services.

Our second operational priority is responding to customer demand in growth geographies and emerging enterprises, companies with revenue from \$300 million to \$2 billion. Nimsoft has accelerated our ability to access both of these markets through new channels, including more than 350 managed service providers. We added 37 new Nimsoft customers this quarter, including Netflix, Thales and SunGard. In addition, Nimsoft recently announced full support for Vblock monitoring and signed Acadia, the Virtual Computing Environment company formed by Cisco, EMC and VMware. Last quarter, I mention that had we have increased our investment in growth geographies, which for us also include Japan and Australia. And recently, we brought new management talent into several key roles. While we do not expect these investments to have a material impact this fiscal year, we are encouraged by results in countries like Mexico and Japan, which grew significantly during the quarter, and we expanded our footprint in more than 100 emerging market accounts this quarter.

On the third priority, we continue to align the organization to be more responsive to customer needs and emerging trends. Much of this initial heavy lifting was done at the beginning of July when we created Customer Solutions Group, or CSG. We are already seeing the CSG organization help to improve our execution, and we expect over time that it will further enhance our competitive position and our ability to respond to the needs of our customers and changes in the market. It also helps us drive results from both the assets we have developed and acquired. While we continue to focus on sales of acquired technologies like Nimsoft and NetQoS, we also leverage acquisitions to further our internal development. For example, NetQoS technology is included in our new CA Assurance product, as well as new CA Service Assurance suite. Another good example of driving value out of acquisitions is 3Tera. There are now more than 80 companies using CA's 3Tera AppLogic to run over 400 grids on four continents, either as direct CA Technologies customers, or as customers of managed service providers.

And finally, this quarter we announced three acquisitions, which enhance our ability to help customers manage and secure virtualized and cloud environments. First, 4Base, a virtualization and cloud infrastructure consulting firm with experience in more than 300 engagements. 4Base helps customers like Toyota Motor Credit Corporation accelerate their virtualization transformation. Second, Hyperformix, expected to close shortly, is capacity management software for physical, virtual and cloud infrastructures. Hyperformix will help our customers solve a critical Virtualization Management need, capacity planning. And finally, Arcot Systems, which is a leader in providing advanced authentication and fraud prevention solutions. Today Arcot has approximately 120 million identities already verified using this technology.

Before I turn the call over to Nancy, I would like to thank our global teams for their execution and hard work in meeting our customer's evolving needs. Nancy?

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**Nancy Cooper** - CA Technologies, Inc. - CRO

Thank you, Bill. To start with please note that all growth rates are year over year unless otherwise indicated. Now to the quarter. Growth in both the current and the total portion of our revenue backlog is a good indicator of our future revenue growth and



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continues to be a reason we remain confident in our full-year revenue expectations. Total revenue backlog at the end of the quarter was \$7.8 billion, up 2%, both many constant currency and as reported, with the current portion growing 3% on both a constant currency and as reported basis. Contract duration was 3.5 years. Total revenue for the quarter was \$1.11 billion and grew 5% in constant currency and 4% as reported. This includes a negative foreign exchange impact of approximately \$15 million. In constant currency, robust growth in North America up 8% was partially offset by international performance where revenue grew 2%. Approximately one-half of our revenue growth in constant currency was organic while the other half was from acquired technologies. Subscription and maintenance revenue was \$961 million, up 1% in constant currency and down 1% as reported. Revenue from software fees and other was \$70 million, up 150% in both constant currency and as reported. Revenue from professional services was \$79 million, up 13% in both constant currency and as reported.

Now I'd like to turn to the remainder of the income statement, starting with our non-GAAP results. Operating expenses were \$721 million, up 8% on a constant currency basis and 7% as reported. This increase in expenses was primarily driven by acquisitions closed during fiscal-year 2010, offset by a one-time \$10 million benefit from the sale of an equity interest. Operating income before interest and taxes was \$389 million, flat over the prior period on a constant currency basis and down 1% as reported. As I mentioned, we had a one-time \$10 million benefit from the sale of an equity interest during the quarter. This translated to a one percentage point benefit to both GAAP and non-GAAP operating margins and a \$0.01 benefit to both GAAP and non-GAAP EPS. For the quarter our non-GAAP operating margin was 35%, a decrease of 2 percentage points, reflecting dilution from the previously-mentioned acquisitions. Non-GAAP diluted earnings per share was \$0.49, up 10% in constant currency and 9% as reported. Our non-GAAP tax rate for the quarter was 34%.

Turning to GAAP results, GAAP operating margin was 28%. GAAP operating income was \$307 million, down 2% in constant currency and down 9% as reported, while earnings per diluted common share was \$0.43, up 14% in constant currency and up 5% as reported. Our effective GAAP tax rate for the second quarter was 25%. Cash flow from operations in the quarter was \$130 million, up 11% in constant currency compared to \$120 million in the prior-year period. Second-quarter cash flow from operations was affected by a year-over-year increase in single installment payments, which was \$124 million in the second quarter compared to \$64 million in the prior-year period. Total billings backlog of \$4.7 billion was up 6% in both constant currency and as reported. DSOs were slightly down.

Looking at our balance sheet, CA Technologies ended the quarter with approximately \$2.5 billion in cash and cash equivalents and \$1.6 billion of total debt, bringing our net cash position to \$958 million. During the second quarter we purchased approximately five million shares of stock for a total of \$96 million. This leaves approximately \$365 million in a remaining approval and we continue to be in the market.

With that I'd like to reaffirm guidance for fiscal-year 2011. We expect the renewal portfolio to increase in the back half of the year compared to the first half and we also expect that this will drive our mix of new business to a more ratable model. We continue to provide guidance for growth rates on a constant currency basis, which we believe best illustrates the operational performance of the Company. Dollar changes for all metrics, except earnings per share, reflect currency fluctuation only. While the constant currency growth rates are both GAAP and non-GAAP earnings per share have not changed. The dollar ranges provided this afternoon have increased to reflect year-to-date performance, a reduce share count and the currency fluctuation. As a reminder, it has been our practice to provide guidance based upon exchange rates on the last date of the previous quarter, in this case September 30th, and guidance includes a partial hedge of operating income.

Guidance is as follows. Total revenue growth is expected to be in the range of 3% to 5% in constant currency. This translates to reported revenue of \$4.45 billion to \$4.55 billion. The range on non-GAAP operating margin is expected to be 34% to 35%. We expect our GAAP and non-GAAP tax rate to range between 33% and 34%. Both GAAP and non-GAAP earnings per share on the low and the high-end of the range have increased by \$0.03. Growth in non-GAAP diluted earnings per share is expected to be in the range of 7% to 14% in constant currency. This translates to reported non-GAAP diluted earnings per share of \$1.85 to \$1.97. Growth in GAAP diluted earnings per share is expected to be in the range of 5% to 13% in constant currency. This translates to reported GAAP diluted earnings per share of \$1.54 to \$1.66. And cash flow from operations is expected to grow at 2% to 7% in constant currency. This translates to reported cash flow from operations of \$1.4 billion to \$1.475 billion. This includes



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approximately \$50 million in restructuring cash payments. These payments will reduce cash flow by 3% and is one of the reasons why our non-GAAP earnings per share and cash flow from operations growth differ in fiscal 2011. Guidance does not include the effect of any future material acquisitions. For the full year we expect approximately 506 million actual shares outstanding and a weighted average diluted share count of approximately 508 million shares. This does not include the effect of any future stock repurchases.

With that, I would like to turn the call over to Bill to conclude. Bill?

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**Bill McCracken** - CA Technologies, Inc. - CEO

Thanks, Nancy. I have been fortunate to visit many of our customers around the world recently. Each CIO I speak with has told me that the IT landscape is changing dramatically and with unprecedented speed. There is no doubt this change is driven by the evolution from physical to virtual environments and ultimately to the cloud. That is the foundation of our strategy, it is what we do; manage and secure IT and physical, virtual and cloud environments. Now, as I told you last quarter, our priority remains execution. This quarter demonstrated that we are executing on our strategy, and execution will continue to be our primary goal.

Now let me turn it back to Kelsey and we look forward to your questions.

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**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Thank you, Bill. As the operator is polling for questions, I would like to inform you that CA Technologies is presenting at the Wells Fargo 2010 technology media and telecom conference on November 9th in New York City; Oppenheimer's US equities investor conference on November 18th in London; the Credit Suisse 2010 technology conference in Phoenix, Arizona, on December 1st; the Barclays technology conference on December 8th in San Francisco; and the Lazard Capital Markets cloud computing investor forum on December 9th in New York. In addition, George Fisher will be hosting a CA Technologies customer panel on November 11th in New York City. Please contact CA Technologies investor relations if you are interested in attending.

In the interest of time, please limit yourself to two questions. Operator, please open the call for questions.

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## QUESTIONS AND ANSWERS

### Operator

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

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**Unidentified Participant** - Credit Suisse - Analyst

Well, hi, this is (inaudible) for Phil Winslow, thanks for taking my question. (inaudible) and how you see this affecting your business?

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**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

I'm sorry, I apologize. This is Kelsey. It is very difficult to understand you. I don't know if you're on a headset or --.



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**Unidentified Participant** - *Credit Suisse - Analyst*

Can you hear me?

**Kelsey Doherty** - *CA Technologies, Inc. - SVP - IR*

Perfect, thank you.

**Unidentified Participant** - *Credit Suisse - Analyst*

Okay, so the (inaudible) for Phil and so what I was asking is could you get your thoughts on the new mainframe release and how you see this affecting your business? And also if you could touch upon the pricing environment, especially versus IBM?

**Bill McCracken** - *CA Technologies, Inc. - CEO*

Okay, (inaudible).

**George Fisher** - *CA Technologies, Inc. - EVP & Group Executive, Worldwide Sales and Operations*

Hey, it's George Fisher, how are you tonight?

**Unidentified Participant** - *Credit Suisse - Analyst*

Fine.

**George Fisher** - *CA Technologies, Inc. - EVP & Group Executive, Worldwide Sales and Operations*

Yes, I think -- as you know, our mainframe growth is linked to our longer-term contracts, so it's not directly linked to the announcements, but we can -- we're very pleased to see the excitement on the platform that's out there, there's a lot of attention going on right now. Also, you might know that the (inaudible) capabilities for cross-platform processing are really well in line with our products and we've got many examples where we're managing mainframe and distributor workloads. So it's very good for us and we anticipate the excitement to add value to our efforts because of our lead in ISV mainframe software. You had a follow up question?

**Unidentified Participant** - *Credit Suisse - Analyst*

Yes, I was also just asking about the pricing, what you see with IBM and is there any share shift happening over the past year?

**George Fisher** - *CA Technologies, Inc. - EVP & Group Executive, Worldwide Sales and Operations*

I didn't -- I'm sorry but you're still a little muffled, if you could repeat that question it would help us a lot. Thanks.

**Unidentified Participant** - *Credit Suisse - Analyst*

So basically I was asking if you see any kind of competition on the pricing pressure from IBM and if there's any share shift going on over the -- over this year?

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**George Fisher** - CA Technologies, Inc. - EVP & Group Executive, Worldwide Sales and Operations

Yes, we're -- as you know the market's always been competitive, I think to our advantage because of the breadth of our products and the focus that we've had. As you know, we've released our Mainframe 2.0 platform. We have over 300 customers now that have implemented that, so we're in a condition today where our customers have seeing a lot of value in the platform. Of course it's competitive but we continue to do very well in the mainframe space and understand the pricing very well and are well positioned for that.

**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Next question, please.

**Operator**

Yes, ma'am. Our next question comes from Gregg Moskowitz with Cowen. Please go ahead.

**Gregg Moskowitz** - Cowen and Company - Analyst

Okay, hi. Good afternoon, guys, and very nice job on the quarter. You've been very transparent about the fact that the amount of business up for renewal was about 25% below year-ago levels in the September quarter and yet you still managed to grow subscription bookings slightly year over year, which is pretty impressive. Was there any significant amount of early renewal activity, or was that consistent with historical levels?

**Bill McCracken** - CA Technologies, Inc. - CEO

No. Gregg, as you know, it's really hard to call exactly when things are going to close, but it was in line with what we thought the renewal portfolio was. At customer preference we do get some things that goes forward, but it was pretty in which line with what we had anticipated for the quarter. Nancy, can you give some more details on it?

**Nancy Cooper** - CA Technologies, Inc. - CRO

Yes. The difference, Gregg, was we had a really wonderful distributed new sales business across our entire portfolio, which was we felt very good. In terms of the renewal, as you will know, the stated timing of these renewals varies and sometimes it's difficult to predict that with precision. What happened, we had some customer preferences that preferred to do their renewal a little earlier than we thought and we were very pleased that we got a large Army contract in the quarter and as you can imagine that's hard to predict when it will happen.

**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Great. Do you have a question -- follow-up question, Gregg?

**Gregg Moskowitz** - Cowen and Company - Analyst

I do and I guess one is just a clarification and then a question. I just wanted to clarify if the -- and I understand, obviously, it is hard to pinpoint but just relative to your comment, Nancy, last quarter I got the amount of business up for renewal in the second half being double-digits higher versus the prior period. And then my question is -- or my follow-up question is on the distributed

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business to your points, Bill, when I look at CA, it is a big entity. In years past sometimes it has been a little bit resistant to change, and but obviously there's a lot that's being done differently now and wondering if you could elaborate on if you think the changes being put in place have staying power, particularly when it comes to the CSG and generating more distributed businesses, specifically in the areas that you mentioned? Thanks.

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**Bill McCracken** - CA Technologies, Inc. - CEO

Yes, Gregg, the things we're concentrating on is new product sales and the new product sales in the new areas of the market that we think is where we're taking our strategy. So we think we're at the right place now and the customers are confirming that to us, in that they're buying across our portfolio with things like Security and Service Assurance that is being used to transition them to the virtual and the cloud environment. So we're getting very good response on that and one of the things that I mentioned was the triple-digit growth in the Service Assurance, as an example. Let me turn it back to Nancy, though, too for some additional detail. Nancy?

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**Nancy Cooper** - CA Technologies, Inc. - CRO

Sure, Gregg, let me go back to your renewal question. The renewal base does increase in the second half of the year and I continue to say the things I've said before that in total, renewal portfolio is about down 10% for the entire year. Now that's only a comment on the renewal portfolio. It doesn't include any comment on new products or services.

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**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Great. Next question, please.

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**Operator**

Yes, ma'am. Our next question is from Phillip Rueppel with Wells Fargo. Please go ahead.

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**Phillip Rueppel** - Wells Fargo - Analyst

Great, thank you very much, a question about the new product business. Are you starting to see strong cross-sell opportunities there, or is it still selling back into your install base?

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**Bill McCracken** - CA Technologies, Inc. - CEO

As we said, we had good organic growth and good acquisition growth, both half and half is what we had, which, frankly, pleased us very much. George, give us some additional.

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**George Fisher** - CA Technologies, Inc. - EVP & Group Executive, Worldwide Sales and Operations

Yes, I'm seeing a very healthy interest with existing customers and new customers are willing start new projects. They're beginning to invest heavily in their IT infrastructure. So we saw double-digit growth in Portfolio and Project Management and Security. In fact, Service Assurance tripled year over year. So as Bill mentioned in the opening, there was well over 100 new logos, so we're getting a lot of new customers, both in the new segments that -- as we mentioned, Nimsoft is going after it very strongly, but also in the enterprise space we're getting good penetration. In fact, six of our largest Service Assurance wins were end-to-end replacements for our competitors, so we're doing quite well competitively, both in existing and new.

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**Bill McCracken** - CA Technologies, Inc. - CEO

David, maybe you can comment on it, as well.

**David Dobson** - CA Technologies, Inc. - EVP & Group Executive - Customer Solutions Group

Well, thanks, Bill, and (inaudible). Just one quick comment to your question about the overall portfolio. As George commented on, as we bring in technologies and products like NetQoS, we've been very focused on integrating that into our Service Assurance portfolio. And what you're seeing is both meeting and exceeding our expectations for how the acquired technologies are doing but it's having a multiplier effect on the overall assurance portfolio so we're seeing good growth of our organically-developed products. So that's been our focus and I think you see that coming through in the quarter results.

**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Okay, Phil, do you have a follow-up question?

**Phillip Rueppel** - Wells Fargo - Analyst

Yes. One follow up would be just in an area of the distributed is not acquisition related, the IAM business. Sounded like you had a record quarter there. Was that just a function of what was coming up for renewal, or there anything changed in that marketplace that's allowing you to gain share?

**Bill McCracken** - CA Technologies, Inc. - CEO

Well, that really comes back to where we were, which -- and it's a good question, Phil because it is the Security piece, which as I think the industry expected becomes a very important pre cursor to moving into virtual and moving into cloud, and I think that's -- because it was new product sales and it's new logos and new customers, so it is strong from a sell point of view and it's leading us to where we want to go. David, comment some more, as well.

**David Dobson** - CA Technologies, Inc. - EVP & Group Executive - Customer Solutions Group

Well, just as you said building on that, what we're seeing, Phil, we're seeing across our Service Assurance portfolio, our Service Management and Security. These are all very important foundational elements for our customers as they go from on premise to building private clouds to ultimately public clouds, and it really is a confirmation of the strategy and the strategic play we've called and we're executing it and seeing customers respond to it.

**George Fisher** - CA Technologies, Inc. - EVP & Group Executive, Worldwide Sales and Operations

Phil, hi, it's George Fischer. We also -- we had one of the largest security deals ever in the public sector this quarter. Also, as you know Arcot is driving a tremendous amount of interest, which really helps us in the [site minder] business. So identity management and access control, very healthy, and it's also an indication the IT economy continues to awaken and enterprise security is very important and it's starting to pick up.

**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Great. Thank you, Phil. Next question, please.

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**Operator**

Our next question comes from Shaul Eyal with Oppenheimer & company. Please go ahead.

**Shaul Eyal** - *Oppenheimer & Company - Analyst*

Thank you, operator, and good afternoon, everybody. Two quick questions in line. Nancy, I'm really starting with the housekeeping. The DSO, is that just an issue of collection, timing of collection?

**Nancy Cooper** - *CA Technologies, Inc. - CRO*

No, it was what I viewed as improved performance year over year, so we were very pleased with that.

**Shaul Eyal** - *Oppenheimer & Company - Analyst*

That's fair. I want to go back to maybe Phil's question on the identity access management. I know you guys maybe don't break out the various set of products out there but can you provide us with some more color, for example, how much the IAM business grew this quarter?

**Bill McCracken** - *CA Technologies, Inc. - CEO*

Well, the Security business, as we said, set a record quarter for us, and Nancy, do we have the actual growth on the Security for the quarter? 81% is what we grew in the quarter and that was -- that is the largest and the largest amount of Security we had in any quarter.

**Kelsey Doherty** - *CA Technologies, Inc. - SVP - IR*

Shaul, do you have a follow up? Great. Okay, thank you very much. (inaudible) next question, please.

**Operator**

Our next question comes from John DiFucci with JPMorgan.

**John DiFucci** - *JPMorgan - Analyst*

Thank you. I just have a follow up from Gregg's question. It sounds -- the bookings were really strong this quarter, especially, as he said -- as he pointed out you said that the renewal portfolio's going to be down 25% this quarter year over year. I guess the question is, does this temper your expectations for the second half realizing that we expect a bigger renewal to occur in the second half, but is it -- how much of that was part of that, or was it largely incremental business this quarter?

**Nancy Cooper** - *CA Technologies, Inc. - CRO*

John, our expectation for the year stays the same, about down 10%. We're very encouraged. The second half of the year has a much larger renewal portfolio so the year has stayed the same. You might have a small change from second to third but not meaningfully different and we're reconfirming guidance.

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**John DiFucci** - *JPMorgan - Analyst*

Okay, so I guess it's a small change so then the out performance this quarter on the bookings side was -- can we take that to mean that it was largely incremental versus just a movement?

**Nancy Cooper** - *CA Technologies, Inc. - CRO*

The Army one was definitely good news for us and highly unpredictable when that would hit, as you can imagine, with a government contract.

**Bill McCracken** - *CA Technologies, Inc. - CEO*

Yes, so, John, as you know it's hard to predict when those are going to come in so that came in nicely, but it does say that the portfolio responded as we expected and for the full year we're at that minus 10%, as we said, and so therefore that's why we are also reconfirming our guidance for the year.

**Kelsey Doherty** - *CA Technologies, Inc. - SVP - IR*

Great. John, does that answer your question?

**John DiFucci** - *JPMorgan - Analyst*

Not really. Just -- and I'm sorry, but I just want to get a gauge because it does sound like you had some -- software fees and others pretty strong and it seems to me that this quarter's bookings were actually stronger than -- even if this bill -- this deal with the Army came in a little earlier perhaps, that maybe this quarter was still stronger than you expected it to be, and that's actually I wanted to hear that that's true, or that's actually not true, it's just more of a timing issue?

**Nancy Cooper** - *CA Technologies, Inc. - CRO*

So let me try first because I answered Gregg the first time, John, and that my first comments were the very strong distributed performance we had, which was across the entire portfolio, was a significant reason why the quarter was as good as it was. And that we were trying to give you some color by saying it's a best distributed quarter we've had in ten quarters. We doubled our IAM business. We tripled our Service Assurance business, so we've had really fine performance and I'll turn it over to my colleagues to give you additional color.

**Bill McCracken** - *CA Technologies, Inc. - CEO*

Yes, John, let me jump in. I might ask George then to comment a little bit just to make sure we are answering your question, but we just had strong distributed business. We had good new product sales and as Nancy just mentioned and we have mentioned -- and we had mentioned -- we brought in the business on each piece of our business, so each of the pieces performed as we expected on -- especially on the renewal side but we also had very good new sales. So that we hit the high side of the revenue growth of what we looked at in the quarter and that still places us where we expect to be coming through the second half of the year for the full year. So it doesn't impact that as we've said it in the past. George, make (inaudible).

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**George Fisher** - CA Technologies, Inc. - EVP & Group Executive, Worldwide Sales and Operations

Hey, John, how are you doing? First of all, we had a good yield in the 90s on the renewal portfolio, but there was -- everything worked to plan there. We were pleased to see that. As Nancy mentioned, we had a major opportunity with the US Army that was a lot of new product and a renewal for Service Assurance products and Virtualization, so it was outsized and very good. And in addition we had strength all around the globe on the entire Service Assurance line, particularly, what we're doing with NetQoS and [Wiley], so very good drivers on that. And, again, when you combine that and in the same quarter you have a very, very strong security move, it makes for a solid performance for distributed. So you couple that with good yields, good growth in our core distributed, it makes for those type of license sales.

**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Great. Next question, please.

**Operator**

Yes, ma'am. Our next question comes from Michael Turits with Raymond James. Please go ahead.

**Michael Turits** - Raymond James - Analyst

Hey, guys, two questions. First on mainframe just -- you may have answered already, my apologies -- but just to -- you mentioned that capacity renewals were down, was that down year over year, or was it worse than last quarter? And then secondly, maybe you could just revisit what's going on in pricing and competition there and whether or not you're getting any push from the enterprise launch?

**Bill McCracken** - CA Technologies, Inc. - CEO

Okay. Michael, let me make a comment to start on the capacity piece and I'm going to ask David then to comment a little bit on it, and then on the pricing thing I want to flip it over to George to finish your question there. But on the capacity piece the renewal portfolio was down, that affects the overall number there, as we said, and then it was skewed towards distributed. So there's no mainframe capacity that's associated with that, so that comes in based upon what the portfolio was and how it renewed. David?

**David Dobson** - CA Technologies, Inc. - EVP & Group Executive - Customer Solutions Group

Yes, hi, Michael, David Dobson. As I think we commented on earlier, it was down really -- and it was planned to be down based on the renewal portfolio, and we're pretty comfortable that with IBM's new announcement and the platform and what they're doing with capacity, that going forward we think -- based on how we invest in the platform and our competitive position we think it's pretty positive for us as we go into the other quarters. So with our Mainframe 2.0 platform, which now has over 300 customers installed with that, and, of course, being announced -- the first product being announced in December of this quarter for (inaudible) is really a new paradigm for the mainframe, we're optimistic as we go forward.

**George Fisher** - CA Technologies, Inc. - EVP & Group Executive, Worldwide Sales and Operations

Yes, and just on the pricing, I see pricing very competitive as it's been for many quarters, and that's an environment that we've been positioned where we've built out software rationalization practices, all sorts of new products, particularly around Mainframe 2.0 so we drive more value into the existing users. As you know, that product is part of maintenance, so we're showing the value to the clients, and we're being very competitive, and I expect that capacity will continue to accelerate through the second half

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of the portfolio. But I don't see any unusual pricing at this point. It's very competitive and it's priced to value in the market and we have to continue to do what we're doing to maintain that value and, of course we are.

**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Great, thanks. Next question, please.

**Operator**

Yes, ma'am. Our next question comes from Todd Raker with Deutsche Bank. Please go ahead.

**Brian Thackray** - Deutsche Bank - Analyst

Hi, guys, it's Brian Thackray for Todd. Good quarter, I think growth rates improve in just about every metric. One area where it didn't was short-term backlog growth. It grew 3%, which is still positive but a bit below where it has been. I guess it was a little bit surprising given the strong bookings performance. Just want to understand that a little bit further. Is that contract length? Obviously that ticked up and with contract length increase is that more of a product mix issue, or are customers more willing to extend on contract terms?

**Bill McCracken** - CA Technologies, Inc. - CEO

The one you're on is an important one because as you recall when we were talking the last time -- and I'm going to ask Nancy to jump in here, too, as well -- but the thing I look at all the time is the revenue backlog, and the bookings number, while it's important, is not what I track to see the health of our business as we're going forward because those numbers move independently. So if you would, Nancy, give him some of the details behind that.

**Nancy Cooper** - CA Technologies, Inc. - CRO

Sure. Brian, it's Nancy. The sequential decline really is a reflection of the large renewal portfolio we're going to have in the second quarter, and that really is the refill of the backlog, so that's your answer to question one. And on the other, the duration is back to normal, which is why I didn't do any compare to the prior year, 3.5% is within the range of what we've always have done and so that's where it is.

**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Do you have a follow-up question, Brian.

**Brian Thackray** - Deutsche Bank - Analyst

Just geographical. North America a bit stronger on the revenue growth side than international. Just can you comment on any trends you see there that stand out to you?

**Bill McCracken** - CA Technologies, Inc. - CEO

Yes, I'll make a (inaudible) comment and George to make some comments, as well. But North America's just very strong, (inaudible) that 8% growth so that came very strong. And the international piece for us grew, too. We had said in the past we

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made significant changes in EMEA, it's improving, but that is a long-term improvement that we're talking about here. It is quarters, not weeks, and so that continues to improve and we've got early signs of the right things happening there. But that's going to be stretched out over time, so on balance it's coming in nicely. And, George, if you might comment beyond that?

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**George Fisher** - CA Technologies, Inc. - EVP & Group Executive, Worldwide Sales and Operations

Sure. The investments that we've made in the emerging markets are continuing to bear fruit. We've got excellent growth in the Latin America and you continue to see growth in India and across some of the fast-growing markets, so we're pleased with that. As Bill said, EMEA execution is a work in progress we've been working on. We've had really good success in recruiting new sales leadership and we're continuing to top grade the talent there. And, also, you heard Bill speak about significant wins, Logicalis. Also we've had a great win. We had a larger Service Assurance competitive replacement in Germany, we replaced IBM (inaudible), so I'm starting to see pipeline growth and some encouraging movement in EMEA. And, again, just to end, North America had an outstanding performance, good growth across all geographies and led by -- we had a very strong public sector showing that wasn't just the Army deal but it was several large transactions that contributed, so that's where it rounds out.

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**Operator**

Great, thank you. Next question, please. Our next question comes from Matt Hedberg with RBC Capital Markets.

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**Matt Hedberg** - RBC Capital Markets - Analyst

Thanks, guys, nice quarter. My first question is either for Bill or George. Obviously you guys have been making large strides in the heterogeneous data center management, including Virtualization Management, and I guess as you go around talking to customers who have standardized their hypervisor on VMware, what has the customer feedback initially when you tell them that you want to be the vendor of choice when managing a virtual environment?

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**Bill McCracken** - CA Technologies, Inc. - CEO

Great question, Matt. I'll tell you, that is one that has given us the right input as we've gone around. Let me make two points. First is that six months ago, nine months ago we were selling this technology to our customers. I have been in -- on four continents the last six weeks and as I talk to CIOs they're asking for this technology there. That'd be point one. It has clearly shifted. The second part of that, the question was -- Matt, I'm sorry?

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**Matt Hedberg** - RBC Capital Markets - Analyst

So I guess when you're going into some of these vendors and they've essentially standardized on VMware?

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**Bill McCracken** - CA Technologies, Inc. - CEO

Oh, yes, thanks, I got it. Yes, which is the second piece that we talk about with them. When they ask -- when you ask and think about management software, what we've done is manage IT environments for three-and-a-half decades. We have the experience, we have the products that manage in that environment. What we're doing is moving that experience, that capability, into the new operating platform, which is the virtual environment. So I think when they step back and look at that, they recognize and realize that what we do is that and we're moving it into new operating platform. Let me ask George to comment (inaudible).

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**George Fisher** - CA Technologies, Inc. - EVP & Group Executive, Worldwide Sales and Operations

We're getting a lot of good traction on the message. You can see the change in the last 12 months and then with our launch at CA World we got an opportunity to really widen it. So it's clear that CIOs are responding to cloud and virtualization, but the here and new of virtualization is automation, service assurance and security. We're delivering those foundational requirements today. But our Virtualization Management pipelines are growing, and it's pretty obvious the need to manage virtual stall is real and it's drive ago lot of interest in the products that are coming out. And it's also obvious to us that there are many vendors with various virtualization platforms going to need support, and David's teams are committed to building out those features. So it's very much increasing and very interesting.

**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Matt, do you have a follow up?

**Matt Hedberg** - RBC Capital Markets - Analyst

Last one for David. In Bill's prepared remarks you talked, obviously, about the new CSG organization and sowing -- helping to improve execution. Can you give us a few examples of some of the benefits of the structure?

**David Dobson** - CA Technologies, Inc. - EVP & Group Executive - Customer Solutions Group

Sure, Matt. In fact, one of the questions earlier on the call was a comment about reluctance to change and that's fundamentally how we put CSG in place because we've very market and customer focused and we're responding to the requirements that customers have as they move from their existing legacy environments into virtualized and then ultimately into the cloud. So you're seeing that through our strategy and we're executing that very well. I think the acquisitions we've done have developed and filled out our portfolio. My team, working with Ajei Gopal in development, is focused on integrating those technologies and acquisitions into our portfolio, and we're delivering that now to the marketplace with our Virtualization portfolio, our Automation portfolio, and you're seeing that in the results. As George commented on and Bill commented on, you're seeing in second-quarter results the customer response to the breadth and competitive -- overall competitiveness of our portfolio. So that's primarily what we're focused on.

And then (inaudible) comment on what we're doing inside of our development organization. Ajei is now looking across all of our products and businesses and we're starting to leverage technologies across multiple parts of our portfolio, and I think just we're starting to see the benefit of that and I'm very encouraged with some of the things we're doing around user interface, leveraging the NetQoS technology, starting to leverage AppLogic and 3Tera, so it's very much part of our execution plan and focus and I think you're starting to see the benefit of that in second quarter.

**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Great, thanks a lot. Next question, please.

**Operator**

Our next question comes from Derek Bingham with Goldman Sachs.

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**Derek Bingham** - Goldman Sachs - Analyst

Hey, everybody. Nancy, I wanted to ask you on margins if you could just give us an update on your longer-term view on expansion. You had a pretty good bit of M&A this year that masked that a little bit, but just thinking about how -- the balance that you want to strike going forward between how aggressive you want to remain with M&A versus where you think -- what you think you can do with margins?

**Nancy Cooper** - CA Technologies, Inc. - CRO

So let me ask you a question, Derek. What timeframe are you talking about, this year, next year? It's not quite clear to me.

**Derek Bingham** - Goldman Sachs - Analyst

I guess next year is probably the focus of the question but even a bit beyond that.

**Nancy Cooper** - CA Technologies, Inc. - CRO

You know I will not give next year's guidance right now on the call, but we did mention that the acquisitions we had done prior to this call had a \$0.06 dilutive impact on our business case and, obviously, as we leverage those acquisitions that number will improve so we're encouraged. Long-term guidance, which is not next year, we've been indicating we believe that will be in excess of 34% to 36%, so we think there is leverage in our model.

**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Do you have a follow up, Derek?

**Derek Bingham** - Goldman Sachs - Analyst

Yes. Just the buyback pace, I'd be curious to hear if you could give us any thoughts on what your expectation is going forward relative to the 100 million or so you did in September?

**Nancy Cooper** - CA Technologies, Inc. - CRO

Yes, so we're encouraged. We announced with guidance that we doubled the share repurchase authorization to 500 million and we've bought 135 million shares so we have 365 million remaining under the authorization and we'll continue to offset dilution and buy opportunistically.

**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Great. We have time for one more question.

**Operator**

Our last question comes from Walter Pritchard with Citigroup.



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**Robert Chin** - Citigroup - Analyst

Hi, it's [Robert Chin] for Walter. Just a question on the freestanding sales. Given a lot of the emphasis that you guys are placing on it do you see an upper limit or upper bound on freestanding sales as a percentage of revenue, or is there some balance that you strike with freestanding sales versus the traditional EOA business?

**Bill McCracken** - CA Technologies, Inc. - CEO

Well, it's really new product sales is what we're talking about because we are -- we have announced a suite of product that go into the new areas that we're going after with virtualization management and cloud, so our focus is growing the new product sales. It's in the growth geographies for us, it's in the growth accounts for us. Nimsoft was a major participant in that this quarter. As we said, they go at that market from \$300 million to \$2 billion. They got 37 new accounts this quarter, they're working through 350 MSPs and then it also works into our standard business, as well. So it's really new product sales that we're driving for.

**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Great, thank you. Bill, would you like to conclude?

**Bill McCracken** - CA Technologies, Inc. - CEO

Yes. We appreciate the comments that we've gotten here and the questions. We were pleased with the quarter. We think we see signs that our execution on our strategy is making an impact on our business, and we're looking forward to what we said, one thing as we go toward, executing this strategy and we think it'll take to us where we said we're going to go. Thanks a lot.

**Kelsey Doherty** - CA Technologies, Inc. - SVP - IR

Great, thank you very much.

**Operator**

And this concludes today's conference, thank you for your participation.

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