Q2 FY08 Earnings Conference Call Script

November 1, 2007

Jessica Kourakos

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

As a reminder, this conference call is being broadcast on Thursday, November 1st 2007 over the phone and the Internet to all interested parties. The information shared in this call is effective as of today's date and will not be updated. All content is the property of CA and is protected by U.S. and international copyright law and may not be reproduced, transcribed or produced in any way without the express written consent of CA. We consider your continued participation in this call as consent to our recording.

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

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

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

John Swainson

Thanks, Jessica.

Good afternoon everyone and thank you for joining us.

I'm pleased to announce that CA has , by every measure, closed on a strong quarter and is on its way to finishing the year with solid top and bottom line performance.

To start, I'll begin today's call by sharing some highlights from the quarter. Then I'll focus on our progress toward building CA into a faster growing, highly profitable, and highly competitive company.

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

Q2 marks CA's fourth consecutive quarter of solid performance.
Revenue in the quarter of $1.067 billion showed an annual increase of 8 percent; or up 5% on a constant currency basis;
Subscription revenue of $858 million grew 13% annually and almost 4% sequentially;
Total bookings were up 46% to $1 billion in the quarter;
Non-GAAP operating margin was up 400 basis points from last year to 27%;
Non-GAAP EPS of $0.32 grew 23% year-over-year; and
Cash Flow from Operations was $193 million,
compared to $6 million in the prior year quarter.

All in, these results mark a significant milestone in CA's transformation.

As we look forward to the second half of the fiscal year, our more streamlined sales organization and improved operating infrastructure allow us to better identify customer opportunities and gives us greater confidence in our ability to meet our full year financial objectives.

And while efficiency improvements continue to be very important goals at CA, our efforts can only go so far without great products and solutions.

CA, at its core, is a technology company. It is has been my goal since the beginning of my tenure here to focus our efforts on building world class products. I've had good experience with this kind of focused development effort at IBM, and I know that we have the talent to do this here at CA.

Our progress in making better products and solutions is already getting noticed by our customers and competitors.

As many of you know, Enterprise IT Management (or EITM) is CA's unique technology approach that gives our customers the software to better govern, manage and secure their IT infrastructures.

It is, by far, the most comprehensive approach to our customers' IT complexity problems and allows us to position CA as a thought leader in the market.
EITM is an important platform for us to sell new products and solutions to both existing and new customers and will be a key enabler for CA to increase its overall share of IT spending.

Here are a few words from Fujitsu Services on how they plan to use EITM to better serve their customers:

And I quote:
"Fujitsu needs to be able to help their customers manage complex IT environments that include both CA products as well as third party systems. For this, Fujitsu has chosen CA's EITM solutions for use with its direct customers and large global outsourcers. We believe EITM will allow our customers to more seamlessly oversee and control their increasingly complex IT environments and achieve better ROI from their IT investments."

MetLife is another great example of how CA uses its product breadth
to elevate its position among vendors, turning us into a more strategic partner for our customers. In the most recent quarter, MetLife added Wily Introscope APM, significantly building upon its existing set of CA monitoring
and management technologies.

In Q2, Wily continued to be a growth driver for CA and is another great cornerstone product to help increase penetration into existing accounts and win new customer engagements.

In the area of Data Center Automation, our R&D teams are busy building a new product for dynamic server provisioning. We will share more details about this product,
code named McKinley, at our upcoming Analyst Day on December 17 in New York City.

The key takeaway here is that our internal development teams are already working hard to optimize our existing product portfolio and build new products to take advantage of emerging opportunities in our markets.

We clearly have the product breadth our enterprise customers are looking for,
and we are also focused on both building organically and buying best of breed solutions.

In the second quarter, CA Clarity continued to lead the industry ,Once again making it into Gartner's June 2007 Magic Quadrant for IT Project and Portfolio Management Applications. It was also voted the winner of "Best Portfolio Analysis" and "Most Flexible/Configurable" categories at the Gartner June 2007
Project and Portfolio Management Summit. This marks the sixth consecutive Gartner PPM Summit at which CA Clarity has been recognized with more nominations and won more awards than any other vendor's product.

In addition to CA Clarity, you should expect us to add more anchor products to our portfolio that will help improve CA's position with customers.
Specifically, in the next few months, we expect to launch new offerings in Identity and Access Management and in Governance. Together with dynamic server provisioning,
these products will build on our already rich portfolio of EITM products and solutions and significantly improve CA's ability to meet and exceed customer expectations.

Now, let me touch on an area that you are often interested in.

In mainframe, we are happy with our steady bookings performance in the quarter. In fact, given what we have seen in the financial services arena,
we believe that the mainframe's centralized approach is the best environment for customers that need to deliver their applications at the highest levels of performance, security and reliability. This is especially important in industries that need to deliver processes that adhere to strict regulatory requirements.

In short, while there's still more work to do, this quarter's performance shows that CA's restructuring efforts and focus on execution have begun to show clear benefits to both the top and bottom line. The initial changes we have made to our sales and financial processes are turning us into a more efficient and agile organization. We believe the next phase of expense rationalization will get us to operating margins that are more consistent with leading companies of our size in the industry. With that, I'll turn it over to Nancy to take you through the details of the quarter and our financials.

Nancy Cooper

Thanks John and good afternoon everyone.

I’ll begin by reviewing our second quarter financials, then address our restructuring efforts and, finally, provide an update to our outlook for fiscal 2008.

As John indicated, second quarter results reflect our fourth consecutive quarter of solid business performance. We’ve completed several important steps to substantially improve our processes and infrastructure and I’m encouraged by our improved execution heading into the second half of fiscal 2008.

I’ll begin with bookings.
Second quarter total product and services bookings
increased 46 percent to $1.007 billion. We were particularly pleased by the strength in our Enterprise Systems Management, our Business Service Optimization and our Security business units in the quarter.

Bookings growth was driven by a number of large contract renewals signed in the quarter. We signed 16 license agreements greater than $10 million which aggregated to $334 million. This compares to 6 such contracts aggregating to $113 million in the prior year period. These results are due to our more disciplined approach to enterprise renewals, and our successful efforts to reduce bookings seasonality throughout our fiscal year.

New deferred subscription value from our direct business, or more simply,
new direct bookings in the second quarter were $824 million, an increase of 65% over the prior year. The weighted average duration of new direct bookings was 3.17 years,
compared to 2.98 years in the prior year period. When annualized, the year-over-year increase from new direct bookings was 56 percent.

As we discussed last quarter, our efforts to reduce bookings seasonality
create a tougher compare for CA entering into the second half. Accordingly, while bookings are up 47% for the first half of the year, we expect total bookings growth for the year to be in the low double digits. We think having a less back-end loaded

bookings year positions us better for negotiations over contract terms, and also allows us to focus more on building our bookings pipeline heading into our next fiscal year.
We'll talk more about this at our Analyst Day event, but overall, we feel very good about our progress in this area.

Total revenue in the second quarter was $1.067 billion, up 8 percent from the prior year, or 5 percent on a constant currency basis. The increase in second quarter total revenue was primarily driven by growth in subscription revenue, which increased 13 percent from the prior year period. As expected, maintenance fell 27 percent,
largely because it continues to be absorbed by our subscription business.
Together, subscription and maintenance revenue grew 8 percent
and is probably a more meaningful way to look at our ratable revenue.
Revenue from professional services in the second quarter was $95 million,
or up 12% year over year.

The percentage of revenue recognized on an up-front basis, which we record within software fees and other revenue, was 3.0% in the quarter vs. 2.7% in the prior year period. The increase was due in part to our decision in the quarter to align our 2-Tier channel sales with industry practice by discontinuing the offer of unspecified future products in those sales. This change resulted in the recognition of an additional $12 million of revenue in the current period.

From a geographic perspective, North American revenue in the second quarter was up 5 percent over the prior year and international revenue increased 5 percent on a constant currency basis. I'd like to highlight EMEA specifically, since process and leadership improvements here led to a much improved quarterly performance in the region and helped bring EMEA more inline with North America bookings performance.

On a Non-GAAP basis, operating expenses for the second quarter were $779 million compared to $756 million in the prior year period. Currency negatively impacted operating expenses by roughly $20 million, or 2 percentage points.

Excluding the negative impact from currency, operating expenses would have been flat with last year's levels. When removing expenses associated with Professional Services, which increase as professional services activity picks up, operating expenses would have been down year over year.

Non-GAAP Operating Income was $288 million for the second quarter, compared to $231 million in the prior year period. Non-GAAP operating margin for the second quarter was 27 percent, reflecting 400 basis points of improvement year-over-year.

Net interest expense for the second quarter was $13 million.

Non-GAAP income was $173 million for the second quarter compared to $153 million in the prior year period, a 13 percent increase year-over-year. This translates into Non-GAAP EPS of $0.32 compared to $0.26 in the prior year period, which is a 23 percent increase year over year on a per share basis.

Now let's turn to our GAAP expenses, which include purchased software, intangible amortization, restructuring and other. Including these items, total expenses before interest and taxes were $823 million for the second quarter, down from $907 million in the prior year period.

During the second quarter, we recorded restructuring and other expenses of $13 million
compared to $58 million in the prior year period. As John mentioned in his remarks, restructuring is part of the many initiatives we have put in place to help us deliver higher operating performance.

Our next phase of initiatives should enable us to yield even better results and get us to operating margins that are more in line with our peers. I'll go into more details on our efforts here at Analyst Day in December, but I am very excited about where we can take CA from here.

Now, to finish up the income statement, GAAP income from continuing operations was $137 million in the second quarter, or $0.26 per diluted common share, which is compared to $54 million or $0.09 per share in the prior year period.

Cash flow from operations in the second quarter was $193 million, compared to $6 million in the prior year period. Strength in cash flow in the quarter was driven by an increase in collections of accounts receivables, including an increase in collections from single installment contracts of $31M over the prior year, and a decrease in disbursements led by lower AP and payroll.

Turning to the balance sheet, e ended the quarter with $1.9 billion in cash and cash equivalents and $2.6 billion of total debt, bringing our net debt position to approximately $690 million. Total deferred subscription value balance as of the end of the second quarter was $5.8 billion, up 17% from last year's second quarter, reflecting the strength of our subscription business and the visibility into our future revenue stream.

Now I'd like to provide you an update to our full year outlook.

While we will face a difficult compare in the second half, I am encouraged with our strong first half results, the improvements we have made to our sales execution engine,
our controls over pricing and deal terms and our continued progress with our restructuring efforts.

Our updated guidance is as follows:

Total revenue is expected to range from $4.15 to $4.2 billion, up from our prior guidance of $4.05 to $4.1 billion, but consistent with our prior guidance of 3-4% growth in constant currency.

Non-GAAP operating EPS guidance is now $1.06 to $1.10, up from our prior guidance range of $0.94–$1.00. This revenue and EPS guidance is updated for today's currency exchange rates and assumes no acquisitions.

We expect approximately 514 million actual shares outstanding, a weighted average diluted share count of approximately 542 million shares and non-GAAP tax rate of approximately 36%, up 1 point from our prior guidance.

We are also increasing our previous GAAP EPS guidance for the year to $0.87 to $0.91, up from $0.75 to $0.81. GAAP EPS assumes no acquisitions and includes roughly $35 million from previously-announced restructuring plans, consistent with our prior guidance. Finally, we continue to expect cash flow from operations to reach $1.05 billion to $1.1 billion, including $470 million in cash tax disbursements versus $296 million in the year ago period. Many of you have asked what the cash flow number would look like without taxes, given that tax payments have been timing-wise hard to predict. When we do that, cash flow would be in the range of $1.52 billion to $1.57 billion for FY08, representing annual growth of 11 to 15 percent compared to pre-tax cash flow last year of $1.36 billion.