Joe Doncheski

Thank you and good afternoon everyone. Welcome to CA's Third Quarter 2009 Earnings Call. I am Joseph Doncheski, Vice President of Investor Relations for CA. Joining me today are John Swainson, our chief executive officer, and Nancy Cooper, our chief financial officer.

As a reminder, this conference call is being broadcast on Thursday, January 29th 2009 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 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, I'll turn the call over to Nancy Cooper.

Nancy Cooper

Thanks Joe and thanks everyone for joining us today.

By now you have seen our press release on our third-quarter financials.

Overall, we had another solid quarter and I am pleased about our results. Clearly, the actions that we have taken over the past three years are paying off and I feel good about the progress we are making, our position in the marketplace and our performance going forward.

I'll begin by reviewing our third quarter financials and then provide our updated outlook for fiscal 2009. John will then follow me with a discussion about our business and what we expect going forward, before turning it over to Q&A.

There's a lot to cover this afternoon, so let's get started with bookings…

We are pleased with our total bookings in this challenging environment. They were $1.248 billion in total, down 2 percent when compared to the prior year period or up 3 percent on a constant currency basis.

Strength in bookings was seen in North America primarily due to strong renewals and the continued demand for mainframe capacity. This was partially offset by EMEA which faced unfavorable currency movements, three large deals signed in the prior year period and more renewals being outside the third quarter.

In the quarter, the weighted average life of subscription and maintenance bookings were 3.1 years, as compared to 2.94 years in the prior year period.

Annualized subscription and maintenance bookings were $359 million, a year-over-year decrease of 5 percent, or flat on a constant currency basis.

On a year-to-date basis, total bookings grew 18 percent to $3.78 billion, which is why we are comfortable reaffirming our full-year bookings guidance of 10 to 15 percent growth. Year-to-date annualized subscription and maintenance bookings grew 1 percent, both on a reported as well as constant currency basis. As I stated, we are pleased with our bookings performance in the current environment.

Total revenue was $1.042 billion, down 5 percent from the prior year, or flat on a constant currency basis.

From a geographic perspective, North American revenue was up 1 percent as compared to the prior year period, or up 2 percent on a constant currency basis, while International revenue decreased 13 percent, or 3 percent on a constant currency basis.

Overall performance was driven by the composition of our bookings as well as lower revenue from Professional Services, some of which were the result of the current economic environment and some of it the result of a more selective approach to driving more profitable contracts. We are also pleased that our focus on more profitable services engagements is contributing positively to margin expansion.

As we highlighted last quarter, revenue can be impacted by the attributes of bookings including; duration, timing of renewals and whether a license is upfront or ratable. While the composition was a bit different than expected, we are pleased with our bookings performance, which is driving growth in our total revenue backlog, which I will discuss in a moment.

Turning to operating expenses, non-GAAP operating expenses were $704 million, down $94 million or 12 percent from the prior year, or down approximately 8 percent on a constant currency basis.

As we continue to push for increased operating efficiencies, we realized savings across the areas we've been focusing on, which include G&A, Selling & Marketing and Professional Services. We expect to continue to drive savings throughout our corporate infrastructure. Expenses also benefited from our operating income hedging program instituted at the beginning of the fiscal year. While the impact from this program varies depending on the fluctuation of currency, we believe it's prudent to have this approach to our international business. As a reminder, we were able to partially mitigate the impact of currency fluctuations with our hedging program this fiscal year. Any future impact of currency fluctuations and hedging programs will be based on then current foreign exchange rates.

Non-GAAP operating income before interest and taxes was $338 million, up 12 percent from the prior year.

And non-GAAP operating margin was 32 percent, a year-over-year increase of 5 percentage points. Non-GAAP operating margin, excluding stock based compensation, continues to be 2 points higher.

Since benefits continue to be realized at an accelerated pace, we now expect full year non-GAAP operating margin between 30 and 31 percent, or 4 to 5 points higher than last year based on current foreign exchange rates.

Interest income started to be negatively impacted by declining interest rates on our cash balances and we expect this to continue to the next quarter.

Non-GAAP net income was $233 million and non-GAAP EPS was $0.43, increasing 21 and 19 percent from the prior year respectively.

Now let's turn to our GAAP results, which include purchased software, intangible amortization, restructuring and other expenses and gains and losses on hedges of operating income relating to the remainder of the fiscal year.

Including these items, total expenses before interest and taxes were $733 million, down 14 percent from the prior year, or down 10 percent on a constant currency basis. We continue to benefit from the many cost cutting programs that we put in place three years ago and we expect to continue to focus on driving more cost and expense out of our business. This is the right thing to do, especially in today's environment.

Now, to finish up the income statement, GAAP net income was $213 million, or $0.40 per diluted common share, increasing 31 percent and 29 percent from the prior year respectively.

In the quarter, tax was positively impacted year-over-year by some discrete items which dropped the tax rate on non-GAAP and GAAP income to 30 and 29 percent respectively, which served to increase non-GAAP EPS by 3 cents and GAAP EPS by 1 cent. Our forecasted full-year tax rate on non-GAAP income of approximately 37 percent remains unchanged. As we work to better align our tax structure with the industry, quarterly fluctuations can occur. The steps we are and continue to take helps our ongoing progression towards our long-term goal of 30 to 32 percent.

Cash flow from operations was $292 million, a year-over-year increase of $59 million.

Cash flow strength was driven primarily by lower disbursements tied to our continued focus on cost controls. We are pleased that in the current environment our ability to collect cash has remained efficient as evidenced by our decline in our DSO.

We are particularly pleased that we were able to drive this cash performance when on a quarterly and year-to-date basis, cash collections from single installments decreased both on an absolute basis as well as a percentage of total product bookings. We expect this trend to continue.

Our balance sheet continues to be strong; we ended the quarter with $2.4 billion in cash and cash equivalents and $2.1 billion of total debt, bringing our net cash position to $251 million. Currently, domestic and international cash balances are evenly split.

In particular, we continue to be mindful of our December 09 maturities: the $500 million 4 ¾ Senior Notes and the $460 million 1 5/8 convert. With that being said, market dislocations presented the opportunity to repurchase some of the 4 ¾ notes at a discount to par in the quarter. We were able to retire approximately $150 million of the $500 million 4 ¾ notes maturing in December of this year. We may repurchase additional amounts of our debt subject to market and other conditions.

In the quarter, revenue backlog grew 11 percent, billings backlog grew 20 percent and expected future cash collections grew 10 percent. This growth highlights the visibility of our subscription model which continues to be a pillar in the current economic climate and we feel good about our results to date and going forward.

The ability to maintain, but also grow our backlog speaks to the value and importance of our software and solutions. Our customers remain committed to look to CA to solve their complex IT requirements and this continues to bode well for CA's growth in the future.

Now with that, I'd like to provide an update to our guidance for fiscal year 2009:

- Total revenue growth is now expected to range from 1 to 2 percent in constant currency as compared to previous guidance of 2 percent. At current foreign currency exchange rates, this translates to reported revenue of $4.2 to $4.3 billion. As we discussed earlier, revenue was impacted by lower than expected Professional Services revenue as well as the composition of bookings. While this mix was a bit different than expected, we are still pleased to be able to forecast constant currency revenue growth in this economic environment.

- Total bookings growth of 10 to 15 percent remains unchanged.

- Non-GAAP EPS increases by 2 cents on the high-end bringing our outlook to $1.48 to $1.57 representing year-over-year growth of 24 to 32 percent.

- The range on GAAP EPS changes to $1.29 to $1.40 from $1.31 to $1.38 and this represents year-over-year growth of 39 to 51 percent, inclusive of approximately $30 to $50 million of restructuring charges, up from the previous forecast of $30 million. In light of the current economic environment, we are accelerating our restructuring efforts primarily relating to facilities.

And,

- We continue to expect cash flow from operations in the range of $1.15 billion to $1.20 billion, representing 4 to 9 percent growth. This includes approximately $120 million in restructuring payments; relatively flat cash taxes and anticipates that while margins improve cash collections from single installments will be lower than last year.

  Except as previously stated, guidance reflects current foreign currency exchange rates, assumes no material acquisitions and a partial hedge of our operating income.

We expect approximately 513 million actual shares outstanding and a weighted average diluted share count of approximately 539 million shares.

With that, I'll turn it over to John to talk about CA's continued execution in challenging times and how the strength of our product portfolio positions CA for the future.

John?

John Swainson

Thanks, Nancy.

As you’ve just heard, CA turned in another solid quarter in an economic environment that continues to offer abundant challenges. Nancy gave you the numbers, now I’d like to spend just a few minutes talking about what’s behind them.

Let’s start with our bookings performance, which is a considerable achievement in an environment where customers are being extraordinarily cautious. Our ability to close deals in this climate tells me that our customers recognize that CA products contribute to increased productivity, improved efficiency and reduced risk– vital considerations in these challenging economic times.

During the quarter we signed several large contracts -- including a number with major financial institutions and insurers. That’s important, because even as these customers were confronting unprecedented market turmoil, they concluded that CA’s products and services are critical to their operations going forward. Among the benefits CA products deliver is a rapid return on investment – often less than a year. That’s a crucial selling point.

Nancy told you that our margins are up. That improvement testifies to our effectiveness in managing our business and controlling costs. We began a drive for improved efficiency more than three years ago -- well before this current economic crisis. Our initiative proved to be prescient and our results have positioned us well with a strong balance sheet and strong cash flow. We’ll continue to look for savings and efficiencies in everything we do.

At CA World in November we showcased the strongest portfolio of products in CA’s history. Many of you walked the floor and talked to our customers. You saw that our customers came out in impressive numbers to learn about how our products can help make their IT environments more effective.

We’re continuing to build out our distributed and mainframe product portfolios.

Let me take just a few moments to highlight our mainframe business, which did particularly well last quarter.

More than a year ago, we created the mainframe business unit, because we saw increased opportunities for CA in this important market. It proved to be a good decision. The unique scalability, reliability, security, cost-efficiencies, and energy-efficiencies offered by the IBM mainframe are absolutely tailor-made for the particular challenges enterprise IT organizations currently face. The mainframe capacity of our customers has grown significantly in terms of total MIPS on a year-over-year basis.

Today, CA’s mainframe business goes well beyond the maintenance renewal of assets we’ve developed and acquired over the past thirty years. With more than 5,000 engineers building some of the industry’s most compelling distributed and mainframe products, we’re introducing strategic new products designed to make the mainframe an even more cost-competitive computing platform.

We’ve made a number of announcements in the mainframe space recently – including a major initiative we call “Mainframe 2.0,” which helps customers maximize the unique advantages of this platform. We’re doing this because the mainframe is experiencing a major renaissance as customers realize how valuable its performance, scalability, reliability and energy efficiency can be. I'll give you one example: One of our major telecommunications customers just replaced its existing mainframe network management software -- which was from another leading vendor -- because CA Netmaster offered greater functionality with lower overall cost-of-ownership.

With respect to CA's distributed EITM portfolio, in the third quarter we saw considerable demand for CA Wily, which I will talk about in a few moments and for CA Workload Automation, which enables customers to deliver critical business services across the enterprise more reliably and cost effectively. CA Workload Automation won a number of significant engagements in both the financial services and health care industries and a significant engagement with Loblaw Companies, Canada's largest food distributor and a leading provider of general merchandise products, drugstore and financial products and services.

We're building and buying technology to strengthen our portfolio. To that end, over the past few months we've made two significant acquisitions in the security market: Eurekify, a pioneer in identity and role management, which we acquired in November and Orchestria, a leading provider of data loss prevention technology, which we announced earlier this month.

These acquisitions further CA's strategy to deliver integrated, end-to-end identity and access management technologies for its customers. CA is providing capabilities that are unmatched by other identity and access management vendors. The breadth and depth of our security portfolio enables CA to help organizations manage their security needs and meet business challenges.

At our annual financial analyst meeting last month, we highlighted the strength of our product portfolio and our leadership team. We talked about our long-term plan and our roadmap for growing the Company and increasing shareholder value. Part of our long-term plan for success is prudent management of our resources to deploy them where they'll have the greatest positive impact for our customers and for our shareholders.

So I look back on Q3 with considerable satisfaction and a determination to build on our success.

As we move forward, we recognize that there's no secret to performance in tough times. It's about focus and execution.

We're focusing on what we believe will bring us success in the current environment and position us for further greater success as the economy begins to recover: That is, providing the industry's most innovative governance, infrastructure and security management solutions -- and working with our customers to deploy those solutions in ways that drive their business success.

Focus must be backed up by solid execution. In Q3 we executed well, which enabled us to improve operating margin, driving cash flow and profit. We'll continue to drive for improved execution as we finish out the fiscal year.

Our efforts over the first three quarters of fiscal 2009 have positioned CA well for future growth.

The role CA products play in the data center will be even more important as companies improve their IT operations to enable business success. The rapid pace of IT innovation continues and I see every indication that our customers continue to be eager to adopt technologies that promise increased efficiency and functionality – technologies like virtualization, cloud computing, and Software as a Service. As I've noted many times, these innovations – while beneficial – also add layers of complexity to already complex systems. CA helps our customers manage that complexity and get the biggest possible return from their IT investments. I don't see those dynamics changing in the foreseeable future. In fact, I see them intensifying.

Without question, we operate in a very competitive market, but we are winning with customers in a wide variety of industries.

For example, a year ago, we established a sales unit to focus on winning government contracts, which has proven very effective and is now poised to help CA compete for further opportunities arising in that sector.

In December, we secured a multi-million dollar Application Performance Management deal with the Social Security Administration -- beating out IBM in one of our largest wins ever for CA Wily.

As the U.S. population ages, the SSA is deploying mission-critical web applications to handle the expected increase of more than 285 percent in some of their key workloads. Increasingly, the SSA relies on web applications to initiate and administer retirement and disability workloads – and the agency came to us seeking the ability to monitor these transactions. The SSA chose CA Wily Introscope because it provides a single solution that offers real-time visibility into all transactions -- regardless of hardware or application platforms.

Clearly, CA's products are meeting the needs of our customers in both the private and public sectors. We feel good about our position in the marketplace and our prospects for the future.

So with that, I'd like to open up the lines for questions.

I'd like to conclude with three points:

First, several years ago CA started down a path to becoming a more streamlined and efficient organization. We're realizing the benefits of those efforts today – in an economic environment where efficient operations are a key competitive advantage.

Second, we have outstanding products that compete as effectively as any in the industry today. CA's products help customers improve productivity and reduce risk and that's a compelling value proposition in any economic environment.

Third, our strong balance sheet positions us well to weather these uncertain times and take advantage of opportunities that will drive future growth.

I am pleased with what we've achieved and I look forward to building on our success.

Thank you.

Reconciliation of Projected GAAP Operating Margin to
Projected Non-GAAP Operating Margin
(unaudited)

	Fiscal Year Ending March 31, 2009	
Projected GAAP Operating Margin range	27%	28%
Non-GAAP adjustments from operations, net of taxes		
Purchased software and intangibles amortization	2%	2%
Restructuring and other charges	1%	1%
Projected Non-GAAP Operating Margin range	30%	31%