

**Joseph Doncheski**

Thank you and good afternoon everyone. Welcome to CA's First 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.

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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. These documents are available on our website at [investor.ca.com](http://investor.ca.com)

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

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

## **John Swainson**

Thanks, Joe.

Good afternoon everyone and thanks for joining us.

I am pleased to report that the first quarter of fiscal year 2009 was a very good one for CA, in which we built on the momentum we established and sustained in fiscal year 2008. This was our seventh consecutive quarter of solid performance and I am proud of how our team executed. I am confident we will continue to execute throughout the fiscal year and in CA's relevance in the marketplace and that is why today we are reaffirming our outlook for fiscal year 2009.

Let me take you through the highlights:

- Total bookings were strong, up 15 percent over the same period last year.
  - Our bookings strength was led by significant growth in new license sales to new and existing customers including related maintenance and new mainframe capacity. As we have said, increasing the depth of our engagements with our existing customer base while winning entirely new engagements has been a prime focus for us. We are seeing the results of these efforts.
  - To that point, sales of security and infrastructure management solutions excelled during the quarter. In the

security space we saw strong demand for our Identity and Access Management solutions while in the infrastructure area, we saw increased demand for our Network Systems Management offerings, eHealth and Spectrum. We also saw significant traction in the mainframe DB2 tools space.

- The success of those products was driven by our people, who are committed to our customers and enthusiastic about the value our products provide. They are born competitors and so our ability to win customers in head-to-head competition is a real source of pride for them and all of us.
  
- Our revenue was up 6 percent, which was flat in constant currency, but in line with expectations for the quarter.
  
- Non-GAAP earnings per share growth year-over-year was 38 percent, driven in part by our long-term focus on business process improvements and expense management.
  
- Cash flow from operations was \$54 million, which was our best performance in a first quarter in three years.

Those are the highlights. Nancy is going to go a little deeper into the numbers in a few moments. But first, let me put our performance in context.

Our results are a clear illustration that CA has innovative products that are operationally critical to our customers' success; that we have a sound, reliable financial model; and that we have strong relationships

with our customers, which we are able to nurture and grow quarter-after-quarter, year-after-year. These three advantages are the bedrock of CA's success. As we continue to deliver value to them, our customers have come to view CA as a true IT partner.

Our focus for the rest of the year will continue to be on execution of this model. Of course, we will continue to develop and sell industry-leading products and solutions based on our Enterprise IT Management strategy. We also will continue to implement process improvements and manage our expenses aggressively, and we will continue to work at strengthening existing customer relationships, while expanding our customer base.

Let me spend a few minutes talking about what we're offering our customers. Today CA has the strongest and most comprehensive product portfolio in its history. It is a portfolio designed to help customers govern, manage and secure their complex IT environments.

The quality of that portfolio is being recognized by the industry's leading analyst firms.

For example, CA was named a leader in data center automation solutions in The Forrester Wave™ Data Center Automation research report that was released just this last April.

CA is identified by Gartner as the worldwide market-leading vendor in asset management and job scheduling based on total software revenue. This recognition, which was contained in a report released in

June, marks the sixth consecutive year that CA has been ranked as the worldwide overall market leader in IT asset management.

Gartner also identifies CA as the market share leader in User Provisioning for 2007 and the market leader in the Web Access Management space with nearly a third of the market. CA Clarity PPM product is solidly in the leader's quadrant of Gartner's "Magic Quadrant" for that category.

With more than \$500 million dedicated annually to research and development, we are continuing to innovate and to deliver the solutions that help make our customers make their IT systems a competitive advantage.

Last June, we announced eight new and updated solutions including products to enable customers to more easily manage compliance and risk from a central location across mainframe and distributed computing environments. The launch spoke to business value and was a huge success. One press article proclaimed, "CA Stages Software Comeback."\* I'd say that we simply took our game to the next level, but I'll accept the compliment anyway.

Another area we are very focused on is virtualization. This is more than a buzz word for us, and something that we believe will have a significant impact on our industry. One of the highlights of our June launch was the rollout of a new version of our Advanced Systems Management product. This product increases our Unicenter Network Systems Management products' capabilities to enable customers to expand their management of virtual environments. Industry analyst

firm Enterprise Management Associates earlier this year put us on its “first team” for virtual systems management citing our innovation, support for heterogeneous environment, highly capable, proven solutions, and a high customer satisfaction rating. You will hear a lot more from us in this space over the coming months.

We’ll follow up with another major launch in October where we plan to include our new data center automation offering. In this launch we will further demonstrate CA’s ability to address our customers’ most pressing challenges and enable them to effectively and efficiently map their IT resources to their business priorities. And this coming November will make some additional product announcements at CA World, our big user conference this year behind held in Las Vegas.

I want to take a moment to talk about our mainframe software business. We experienced solid growth in the first quarter and I attribute it to two factors. First, we established a stand-alone mainframe business unit last year when we saw significant opportunities coming our way as customers began recommitting to the that platform and voicing their need for the mainframe products and services CA provides. Given our strong position in the marketplace, we determined that a specific mainframe strategy with even more focus and dedicated resources would enable us to capture the coming opportunities. The second is that the rollout by IBM of its z10 enterprise platform last February has generated a good deal of excitement in the marketplace and CA was one of the only ISV’s to provide day one support. Given the ratable nature of our business model, we expect to see the benefits of this new platform growing in the coming quarters and years to come.

Without question, we operate in a very competitive environment that is getting more competitive everyday. But, we are winning in this marketplace. Let me provide you with a few examples:

The first is a recent win with the U.S. Department of Veteran Affairs. We partnered with Merlin International and were selected by the VA to provide Identity and Access Management solutions. By deploying IAM enterprise-wide, the VA will be able to provide secure delivery and access to Web-based applications; which in turn will increase veteran access to benefit and health information, as well as improve regulatory compliance and inter-agency collaboration, a better way to govern areas of overall security.

Anyone who has participated in a government procurement knows that these are exhaustive and competitive processes. That's why we are very pleased that we partnered with Merlin in a successful bid with our IAM solutions.

The second demonstrates how we are working with our customers to solve their problems. As a long-time user of CA Database Management Solutions for database base tools, Lowe's Companies, which as you know is the second largest home improvement retailer in the world, turned to CA when it needed to replace its homegrown solution for optimizing the application development lifecycle and maximizing resource usage in its DB2 environment. CA's solutions provided the capabilities they were looking for -- especially the critical support for DB2 version 8. The CA team worked closely with Lowe's to understand its needs and added features to help Lowe's optimize its

database environment, reduce resource consumption, and prevent unwanted changes from affecting production applications.

Finally, I have been talking with you over the past several years about the steps we are taking to transform CA. I'm very pleased that these efforts are bearing fruit. Our unwavering focus on process improvements and expense control has led to significant efficiency and cost benefits.

These improvements are not one-time occurrences. They are the result of a great deal of hard work that began with us taking a hard look at what our customers needed to be successful and then deciding how we build an efficient operating infrastructure to meet those needs.

As I have also said in the past, we're taking a much more disciplined approach in our customer engagements. As we help our customers meet their business challenges, we are ensuring that we receive fair value for our products and services. The litmus test for any deal is that it makes complete sense for our customers and for us. That's our definition of a successful partnership.

With that, I'm going to turn it over to Nancy for a more extensive look at our Q1 results. We'll then open it up for questions and then I'll wrap up.

**Nancy Cooper**

Thanks John and good afternoon everyone.

Let's now go into the details of the quarter.

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Total bookings were \$1.030 billion in the quarter, an increase of 15 percent from \$895 million in the prior year. We have modified our bookings disclosure to include all committed maintenance contracts which we feel is a more relevant measure of our committed future revenue generating activities.

Strength in bookings was driven by continued sales execution in EMEA and North America. We are also encouraged by the strength in new license sales consisting of both new products and related maintenance as well as new mainframe capacity. Although not disclosed in our financial statements and subject to discretion, we estimate that about one-third of our bookings in the quarter were new license sales. We will continue to build on this momentum.

The weighted average life of subscription and maintenance bookings in the quarter was 3.37 years, as compared to 2.95 years in the prior year. When annualized, the year-over-year increase in annualized subscription and maintenance bookings for the quarter was 5 percent.

Total revenue in the quarter was \$1.087 billion, up 6 percent from the prior year, or flat on a constant currency basis and in-line with our expectations. Looking forward, as we replace FY06 bookings with FY09 bookings which reflect improved pricing discipline and increasing new product sales, we expect to see accelerating revenue growth trends in the second half.

Together, subscription and maintenance revenue grew 6 percent for the quarter.

From a geographic perspective, North American revenue in the quarter was up 3 percent over the prior year and International revenue increased 10 percent, or down 2 percent on a constant currency basis.

Non-GAAP operating expenses for the quarter were \$745 million, down 3 percent from the prior year, or down 7 percent on a constant currency basis.

Non-GAAP operating income before interest and taxes for the quarter was \$342 million, up 34 percent from the prior year.

Non-GAAP operating margin for the quarter was 31 percent, reflecting a 6 percentage point improvement year-over-year. Non-GAAP operating margin, excluding stock based compensation, was 34 percent reflecting a 7 percentage point improvement year-over-year.

Our growth in operating margins is a reflection of process improvements that have improved efficiency and the results yielded from restructuring and other cost-savings initiatives, which to date include ones you have heard us previously discuss such as shared services in finance, facilities consolidation, indirect model in APJ and newer ones of rationalization of customer support and improving services utilization. All of these contribute to improving margins.

Non-GAAP income for the quarter increased 35 percent to \$214 million compared to \$159 million in the prior year.

And this translates to non-GAAP EPS for the quarter of \$0.40 compared to \$0.29 in the prior year, a year-over-year increase of 38 percent.

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 future periods. Including these items, total expenses before interest and taxes were \$779 million for the quarter, which is down 4 percent from the prior year.

During the quarter, restructuring and other expenses were \$4 million, the majority of which was related to facilities.

Now, to finish up the income statement, GAAP income for the quarter was \$200 million, or \$0.37 per diluted common share, which compares to \$129 million or \$0.24 per diluted common share in the prior year period.

Cash flow from operations in the quarter was \$54 million, compared to a loss of \$13 million in the prior year period, a year-over-year increase of \$67 million. When adjusted for a \$23 million duplicate customer payment received at the end of the quarter and returned in the second quarter, cash flow from operations was \$31 million, up \$44 million from the prior year and was our strongest first quarter cash flow in three years. As you know, CFFO historically has been low in Q1 which

includes cash payments related to commissions and bonuses from the prior fiscal year.

Now completing the balance sheet, we ended the quarter with \$2.4 billion in cash and cash equivalents and \$2.2 billion of total debt, bringing our net cash position to \$181 million.

Furthermore, we are encouraged by the continued strengthening of our balance sheet with our expected future cash collections, total revenue backlog and total billings backlog up 6, 12 and 14 percent respectively on a year-over-year basis. What's important about this is that while we are showing good period results, the company is building a strong base for growth in the future.

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

- Total bookings growth in the mid-to-high single digits.
- Total revenue growth of 2 to 4 percent growth in constant currency, or \$4.5 to \$4.6 billion dollars when translated at today's foreign currency exchange rates, representing 5 to 7 percent reported growth.
- Non-GAAP EPS of \$1.45 to \$1.52, which represents 22 to 28 percent growth.
- GAAP EPS of \$1.28 to \$1.35, which represents 38 to 45 percent growth, inclusive of approximately \$30 million of restructuring charges.

and

- Cash flow from operations of \$1.15 billion to \$1.18 billion, which represents 4 to 7 percent growth. This includes about \$120 million in restructuring payments and relatively flat cash taxes.

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

We continue to expect approximately 517 million actual shares outstanding, a weighted average diluted share count of approximately 541 million shares and a full year tax rate on non-GAAP income of approximately 37 percent.

CA's start to fiscal year 2009 marks the seventh quarter of solid execution and I am pleased with our consistent performance. Given the predictable nature of our balance sheet and continued growth in our backlog, we are confident about our execution in the coming year.

And with that, we'll open the call up for questions.

### **John Swainson**

Let me summarize what we've talked about today:

- We had a very good first quarter, which was our seventh consecutive solid quarter;

- We carried our FY 08 momentum into the new fiscal year and drove significant bookings growth highlighted by the strength in new product license sales;
- Our first quarter cash flow was the best it's been in three years;
- We introduced new and innovative products;
- Our mainframe business strategy is working;
- We continued to improve our business processes and manage our expenses to drive operating margin improvement and strong profit growth; and,
- We reaffirmed our full-year outlook.

So, what's ahead for CA?

It's all about execution.

- We'll build on our success in expanding and strengthening our portfolio with more product launches in October and at CA World in November;
- We'll continue to improve our business processes and manage expenses with relentless focus to drive efficiencies and operating margin improvements and;
- We'll continue our drive to build partnerships with our existing customers and new customers to grow bookings and revenue.

Thank you.