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PRESENTATION

Operator

Good day, everyone, and welcome to the CA Technologies third-quarter 2011 earnings conference call. Today's call is being recorded. At this time, I would like to turn the call over to Kelsey Doherty, Senior Vice President of Investor Relations. Please go ahead, ma'am.

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

Thank you, and good afternoon, everyone. Welcome to CA Technologies' third-quarter fiscal 2011 earnings call.

Joining me today are Bill McCracken, our Chief Executive Officer, and Nancy Cooper, our Chief Financial Officer. Also in the call and available to answer questions are David Dobson, our Executive Vice President and Group Executive, Customer Solutions Group, and George 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 third-quarter results and update full-year guidance. Bill will return to conclude, and we will take your questions.

As a reminder, this conference call is being broadcast on Tuesday, January 25, 2011, 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 U.S. 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, all non-GAAP operating measures are being reported, excluding share-based compensation expense, on an ongoing basis. Prior-period non-GAAP metrics also reflect this change for comparative purposes.

In addition, guidance provided this afternoon reflects the effect of ASC 260-10-45, which governs the allocation of net income between common stock equivalents and participating securities. This guidance became effective in 2009. For further information, please reference footnote nine in 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 those forward-looking statements. Please refer to our SEC filings for a detailed discussion of potential risks.

So with that, let me turn the call over to Bill.

Bill McCracken - *CA, Inc. - CEO*

Thanks, Kelsey, and good afternoon to everyone. Thank you for joining us.

So let me start with the highlights. CA Technologies delivered another strong quarter, thanks to continued focus on execution and a leading portfolio of solutions to manage and secure IT infrastructures.

Year over year, revenue grew 5% in constant currency. Three points of this growth was organic, two points was acquired. This demonstrates our ability to introduce new products, acquire technologies, and, more importantly, effectively integrate them into our customer offerings. This is driving our growth today and establishing a base for growth in the future.

Non-GAAP operating margin was 34%, reflecting the effect of acquisitions that were closed during fiscal-year 2010 and 2011. We reported a non-GAAP tax rate of 32%, the result of continued improvements in tax. Non-GAAP EPS was up 11% in constant currency. Cash flow from operations increased 45% in constant currency and keeps us on track to meet full-year expectations.

And finally, while we saw a modest decline in bookings, current revenue backlog grew 4% in constant currency, a good indicator for me of our expected subscription and maintenance revenue growth, this year and beyond.

We feel very good about where we are, both from a strategic standpoint and relative to our financial objectives. This gives us the confidence to increase the low end of revenue guidance and both GAAP and non-GAAP earnings-per-share ranges, which we provided this afternoon.

Before I turn the call over to Nancy, let me update you on our performance against the strategic priorities I outlined at the beginning of this fiscal year. They are increasing the number of freestanding sales with the introduction of new products, responding to customer demand in growth geographies and emerging enterprises, and continuing to align the organization to be more responsive to customer requirements and emerging trends.

On the first priority, freestanding sales. As we said last quarter, freestanding sales give us the opportunity to increase our share of the technology customer's wallet through both cross-selling to current customers and the addition of new customers. Progress can be seen in the 50% constant-currency increase in software fees and other revenue. These are sales of application performance management, NetQoS, and other perpetually licensed software closed outside a renewal.

Success can also be seen in new product sales performance. Let me give you a little insight into the business booked during the quarter. Year over year, total new product sales and capacity grew low single digits. Distributed new product sales grew low double digits. Virtualization management and service automation new sales grew more than 25% year over year.

We also added more than 40 new logos to this business, of which just under half were completely new to CA Technologies. Customers using this technology include CBS, South Carolina State, Rio Tinto, and Fujitsu Australia.

In addition, we closed the acquisition of Hyperformix, which provides capacity management planning for virtual, physical, and cloud environments. During the quarter, Hyperformix added a number of blue-chip customers, such as PG&E and BP.

Next, service assurance news sales growth outpaced the market, and we added more than 120 new logos, including 24 competitive replacements.

Identity and access management sales, including newly-acquired Arcot Systems, were flat year over year. These deals have long sales cycles and tend to be variable quarter to quarter. However, the number of transactions closed did increase sequentially quarter to quarter, with customers like AXA Switzerland and Toyota Financial making purchases, an indicator of the health of this business.

In cloud computing, we continue to extend our technology lead, leveraging dozens of cloud patents and patent applications. We also closed the largest multimillion-dollar 3Tera AppLogic transaction to date with ScaleMatrix.

Mainframe capacity grew low double digits. Growth in distributed new product sales and mainframe capacity was offset by a year-over-year decline in mainframe new product sales, due in part to a challenging year-over-year compare that included a large transaction in Latin America, as well as a decline in new sales of consumer and small and medium business solutions.

Overall, I am pleased with the progress we are making in new product sales, the indicator that our strategic focus is working.

Our second priority is to increase our presence and to respond to customer demand in growth geographies and emerging enterprises. In the third quarter, I traveled throughout our principal growth geographies, including trips to Latin America, India, China, Japan, and Southeast Asia, and met with customers, system integrators, and channel partners. Our focus on cloud computing is resonating, as many of these customers and partners are making the move faster than their counterparts in North America and Europe.

During the quarter, we were selected by one of Singapore's largest banks to help execute their cloud strategy and were chosen by Infosys to be a partner for cloud initiatives.

Our Nimsoft products have also expanded our ability to reach these markets and customers. This quarter, the Nimsoft team added more than three dozen new customers, including Mahindra Satyam, Celcom, RackForce Networks, Melbourne IT, and Carpathia Hosting.

In addition to Nimsoft, we are building our SaaS capabilities. For example, Clarity PPM-On-Demand and Service Desk-on-Demand now have more than 120 on-demand customers and added 17 new logos during the quarter.

Also, the acquisition of Arcot Systems has brought SaaS-based advanced authentication and fraud prevention solutions to CA Technologies. Arcot currently secures more than 150 million identities and helps prevent fraudulent transactions for about 1 million online credit and debit card transactions each day.

Our third priority is to further align our business with our customers' needs. Of the many initiatives we have put in place, I would like to highlight two.

The first initiative addresses the fast-growing $2 billion communication service provider market. This afternoon, we announced the acquisition of Torokina Networks. With the addition of Torokina to our Service Assurance portfolio, CA Technologies now supports specialized network devices for rapidly-growing 3G and 4G mobile voice and data environments. CSPs can look to us to solve their unique performance management needs for both internal IT and network operations requirements.

A second initiative is focused on building out a robust partner ecosystem. We made excellent progress this quarter with two milestone accomplishments. First, Microsoft and CA Technologies signed an agreement to do joint development in the cloud, and in addition, we agreed to a joint go-to-market framework with shared revenue on a global basis.

We also were selected by SAP to provide Web access management for their customers. We look forward to expanding our global footprint through the added reach of these two powerful partners.

Now, I will turn the call over to Nancy, who will review the financial details of the quarter. Nancy?

Nancy Cooper - *CA, Inc. - EVP, CFO*

Thank you, Bill. First, please note that all our growth rates are year-over-year unless otherwise indicated.

Now, to the quarter. Growth in the current portion of our revenue backlog is a good indicator of our future subscription and maintenance revenue growth. Total revenue backlog at the end of the quarter was $8 billion, up 2% in constant currency and 1% as reported, with the current portion growing 4% on a constant-currency basis and as reported.

Let me give you some insight into the business that contributed to revenue backlog. As we frequently say, bookings are not the best indicator of future growth expectations for CA Technologies, and this quarter is a good example of why that is the case, as we were able to deliver strong results despite a modest decrease in bookings. This was largely the result of a year-over-year decrease in our license and maintenance renewals.

As anticipated, the total value of renewals accelerated from the second to the third quarter, and we expect to see acceleration into the fourth quarter. We continue to expect the full-year renewal portfolio to be down 10% compared to fiscal 2010.

Given the varied timing of these renewals, we focus on our renewal yield to judge the health of the business. Our renewal yield was just under 90% during the quarter. This does not include the effect of the price increase announced in July.

Geographically, sales were up solidly in North America and down internationally, where Europe remains a work in process. As we said, we have made leadership changes across the region and are introducing disciplines designed to accelerate new product sales in Europe. We are making progress, but it will take several quarters before the operation is where we want it.

Overall, our performance is where we need to be to sustain growth, and year-to-date results give us the confidence to increase the low end of revenue guidance for the full year.

Moving to revenue, total revenue for the quarter was $1.17 billion, and grew 5% in constant currency and 4% as reported. This includes a negative foreign exchange impact of approximately $8 million.

In constant currency, revenue growth in North America of 7% was partially offset by international performance where revenue grew 1%. Within our international segment, Latin America, Asia Pacific, and Japan delivered solid performance, offset by Europe.

Subscription and maintenance revenue was $995 million, up 1% in constant currency and flat as reported. Revenue from software fees and other was $82 million, up 50% in constant currency and up 52% as reported. This was driven by performance in our Service Assurance business, particularly NetQoS and CA Infrastructure Management, our new suite integrating eHealth with NetQoS.

Revenue from professional services was $88 million, up 23% in constant currency and 21% as reported.

Now let me turn to the remainder of the income statement, starting with our non-GAAP results. Operating expenses were $774 million, up 7% on a constant-currency basis and 6% as reported. This increase in expenses was primarily driven by acquisitions closed during fiscal-year 2010 and 2011, which have accelerated revenue growth this year and are laying the foundation for the future.

Operating income before interest and taxes was $391 million, up 1% on a constant-currency basis and down 1% as reported.

For the quarter, our non-GAAP operating margin was 34%, a decrease of one percentage point year over year, reflecting the impact of the previously-mentioned acquisitions. Non-GAAP diluted earnings per share was $0.51, up 11% in constant currency and as reported, including a negative $0.01 headwind from currency. This EPS growth was partially driven by improvements in our non-GAAP tax rate for the quarter, which was 32%. This is one percentage point better than the low end of our guidance range.

This afternoon, we updated our full-year tax rate guidance for both GAAP and non-GAAP, which is a reflection of our continuing work on taxes to deliver a tax rate more closely aligned with industry norms.

Turning to GAAP results, GAAP operating margin was 29%. GAAP operating income was $338 million, flat in constant currency and down 3% as reported, while earnings per diluted common share was $0.39, down 17% in constant currency and 20% as reported.

Our effective GAAP tax rate was 39%, due to a number of discrete adverse tax items arising in the quarter, which are not expected to recur. This GAAP tax rate represents an unfavorable year-over-year compare to the third quarter of the previous year when the GAAP tax rate was 22% as a result of favorable discrete items.

Cash flow from operations in the quarter was $496 million, up 45% in constant currency and as reported, compared to $342 million in the prior-year period. This growth reflects both a year-over-year increase of $78 million and upfront cash collections from single installment payments to $152 million and an increase in collections on trade receivables of $122 million. Total billings backlog of $4.7 billion was up 1% in constant currency and as reported.

Looking at our balance sheet, CA Technologies ended the quarter with approximately $2.7 billion in cash, cash equivalents, and marketable securities, and $1.6 billion of total debt, bringing our net cash position to $1.1 billion. During the third fiscal quarter, we purchased approximately 1.5 million shares of stock for a total of $35 million. This leaves approximately $330 million in approved repurchases and remaining approval, and we continue to be in the market.

With that, I'd like to update guidance for fiscal-year 2011. We continue to provide guidance for growth rates on a constant-currency basis, which we believe best illustrates the operational performance of the Company. 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, December 31, and guidance includes a partial hedge of operating income.

Guidance is as follows. For revenue, an increase in the low end of the range. Revenue growth is now expected to be in the range of 4% to 5% in constant currency. This translates to reported revenue of $4.48 billion to $4.55 billion.

We have revised our non-GAAP operating margin, which is now expected to be 34%. This reflects the impact of acquisitions closed during the quarter.

In addition, we also expect seasonal fourth-quarter expenses associated with commissions. Our GAAP and non-GAAP tax rate is now expected to range between 32% and 33%. This is the next step to delivering on our long-term tax rate guidance of 30% to 32%.

Both GAAP and non-GAAP diluted earnings-per-share ranges were increased this afternoon. Growth in non-GAAP diluted earnings per share is expected to be in the range of 10% to 15% in constant currency. This translates to reported non-GAAP diluted earnings per share of $1.88 to $1.98. Growth in GAAP diluted earnings per share is expected to be in the range of 8% to 14% in constant currency. This translates to reported GAAP diluted earnings per share of $1.57 to $1.67.

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. Guidance does not include the effect of any future material acquisition.

For the full year, we expect approximately 504 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.

Now with that, I will turn the call over to Bill to conclude. Bill?

Bill McCracken - *CA, Inc. - CEO*

Thanks, Nancy. As I said at the beginning of the call, I am encouraged by our execution capability and third-quarter performance.

Customers and industry analysts agree that the market is moving very quickly and to where we thought it would when we adopted our strategy. Virtualization and cloud computing are top of mind. Customers understand that management and security are vital if they are to implement the technology roadmaps required to drive their businesses.

From my vantage point, I see the rate and pace of this market moving faster than anyone anticipated, and I believe it will be much bigger than anyone is predicting. This is good for CA Technologies. We know what to do, we know how to do it, and we are focused on a strong finish to this fiscal year.

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

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

Thank you, Bill. As the operator is pulling for questions, I would like to inform you that CA Technologies is presenting at the UBS IR Software Day in Chicago on February 8, the Goldman Sachs Technology and Internet Conference in San Francisco on February 16, the Morgan Stanley Technology, Media, & Telecom conference in San Francisco on March 2, the Raymond James & Associates 32nd Annual Institutional Investors Conference in Orlando on March 8, and the UBS Technology Conference in London on March 10.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Matt Hedberg, RBC Capital Markets.

Matt Hedberg - *RBC Capital Markets - Analyst*

Nancy, I guess -- in your prepared remarks, you talked about a decrease in year-over-year license and maintenance renewals with a renewal yield just under 90% versus -- I believe it was low 90s last quarter. I guess, I'm wondering is there any color you could give us on sort of what drove that tick in the renewal yield, and should we expect that to rebound into your seasonally strong Q4 period?

Nancy Cooper - *CA, Inc. - EVP, CFO*

Sure, Matt. It really is a reflection of the contracts that are coming up for renewal, and all this says is we had one or two transactions that had a slightly lower renewal.

You'll see if you look in the past, we've had quarters that have been just under 90% and then quarters that are a little over 90%. So, it's not to us atypical. It happens. And we are encouraged. We have put in place a price increase and we're starting to get a yield off of that.

Matt Hedberg - *RBC Capital Markets - Analyst*

That's great. And then, I guess, as a follow-up, Bill, in your prepared remarks, you spoke about the virtualization management. That's something that we've been tracking pretty closely, and I think you said that it was up an impressive 25% year on year. Can you give us an update on just sort of the win rate -- your win rate there and then just the overall competitive environment?

Bill McCracken - *CA, Inc. - CEO*

Yes, I'll tell you, that is obviously a, Matt, a very important area for us, and I think the thing that's most encouraging for us is that we are getting significant new account penetration off of those new products, and for example, in the Service Assurance area, we had 120 new logos. 24 of those were competitive wins. So the things that we think are the lead up into what is virtual and cloud is running very strong.

David, do you want to make any more comment on that?

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

Well, just very briefly to add on, what we're starting to see, Matt, is some pretty good cross-sell into some of our other solutions. So where we would've had a strong Service Assurance account or opportunity, we're starting to see our virtualization management and automation suite being sold into that. So, there is some of the transactions that are in our distributed portfolio are getting larger.

The final point is we acquired Hyperformix in the quarter, which has really added a very strong, functional element to that portfolio, and we saw a very strong uptick in Hyperformix, so we are encouraged by what that will do for our portfolio going forward.

Operator

Philip Rueppel, Wells Fargo Securities.

Philip Rueppel - *Wells Fargo Securities - Analyst*

Great. Thank you very much. Could you give us some color -- now that we've had a couple of quarters of the new IBM Z Series out there, could you give us some color around how your renewals look? Are you starting to see accounts renewing with those in place? Any color around that sort of pricing and your ability to sell sort of the new cross-platform tools? Are you seeing any shift in share kind of in your -- in the overall mainframe software system management market?

Bill McCracken - *CA, Inc. - CEO*

The mainframe, obviously, as you know, for us is a very important area, and one of the things that I think was encouraging us this quarter is that we were in the low double digits on the capacity increase.

We have, I think, momentum that is in the market on the mainframe. There is some lift, we believe, with the cycle that IBM is in. We've said in the past we don't think we're directly tied to that, but we do see lift on that, and it is encouraging, and we're introducing new mainframe products into the market. David, put some details on that, if you would.

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

Yes, so the only thing I will add is we've been very focused on sustaining our leadership position in this marketplace from an innovation standpoint underneath our Mainframe 2.0 strategy, and I'm delighted to let you know we've got over 350 customers that have adopted that on our mainframe software capabilities or our new course roles, which we've just announced in the third quarter.

So, we're very encouraged relative to our competitive position and we are starting to see uptick, and as I talk to customers around the world about what we're doing with mainframes, they continue to view us as a leader in this space. So, we're encouraged with where we are right now.

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

Thanks, Dave. Phil, do you have a follow-up?

Philip Rueppel - *Wells Fargo Securities - Analyst*

Yes, just to steer to the other side of the mainframe, on the distributed and the identity access management spaces. You're coming off some great quarters. Could you characterize how the sort of selling environment is in those arenas today, and sort of perhaps sort of the pipelines looking forward into Q4?

Bill McCracken - *CA, Inc. - CEO*

Yes, the distributed side is going very well for us, and that is a lot of the new product pieces as well.

The thing I think is the most encouraging for us, and we said this last quarter. It's true this quarter as well, we see it. Service Assurance is running strong, and we're getting competitive wins as well. Security, the number of transactions in security, was greater than it was the last time. Revenue wasn't growing that much, but that has to do with the size of the orders that go with that.

So, the two precursors to moving to virtual and the cloud are the pieces that really, I think, are the best indicators for us as to how that's going.

Operator

Katherine Egbert, Jefferies & Company.

Katherine Egbert - *Jefferies & Company - Analyst*

It looks like you had some nice wins in the virtualization area. Obviously, you're adding new customers. What about the other way? Are you cross-selling this technology into the existing base? Can you talk about that?

Bill McCracken - *CA, Inc. - CEO*

I'm sorry, Katherine. I didn't catch all the points on the question. Would you do it again?

Katherine Egbert - *Jefferies & Company - Analyst*

It's because I'm talking too quickly. Are you -- how are cross-sells of the virtualization management into the existing base? How is that going?

Bill McCracken - *CA, Inc. - CEO*

It's going very well. And you know, the encouraging thing about it, too, is that we started to see that happening now in addition in the geographies outside of North America. So we see penetration there as well, and so the cross-sell and upsell is a [big] part of what we're doing, and a lot of the account activity that we see is that the IM and the Service Assurance and those products are selling in in those accounts that are moving into the virtual and the cloud areas.

And George, do you want to make any comment beyond that as well?

George Fischer - *CA, Inc. - EVP, Group Executive Worldwide Sales and Operations*

Yes, I think that we have an incumbency that's very solid in the managed physical environment, so naturally when the clients are going to go to a virtual environment, it's a great move for us.

So, we're getting an increase in the at-bats, our win rates are going up, and it's beginning to get some great traction, but clearly, having an end-to-end management capability to manage a physical and virtual environment is a big advantages for CA.

Katherine Egbert - *Jefferies & Company - Analyst*

Okay, and then, there was a relative weakness in Europe. Can you talk about what happened there?

Bill McCracken - *CA, Inc. - CEO*

Yes, I'll ask George to comment on it a little bit, but I will say the one thing is that, as we said the last time, and George can get through some of the changes, but it's a work in progress, as Nancy said in her earlier remarks. But it's -- we're measuring that on quarters, not on months. It's coming back, but it's going to be on quarters, not on months. And George, maybe a little bit of what you've done and how it's working.

George Fischer - *CA, Inc. - EVP, Group Executive Worldwide Sales and Operations*

Yes, so Europe has pockets of improvement, and so where we've brought in seasoned executives in the markets that we've talked about on previous calls, business is beginning to grow.

In particular, we're seeing Service Assurance sales are growing. NetQoS, which a few quarters ago was non-existent in Europe, is now growing in double digits, and of course, we look forward to an increased portfolio inventory in the future quarters. So, all in all, and as Bill said, the improvements we're making are substantial, and they're measured over time, but they're foundational and they're starting to take effect in a very positive way.

Operator

Gregg Moskowitz, Cowen and Company.

Gregg Moskowitz - *Cowen and Company - Analyst*

I just wanted to circle back on the bookings number, if I could, because it did come in a little lower than expected. Just wondering if there were any particularly large deals that perhaps got pushed out in the December quarter. And then, looking forward, Nancy, if you can comment even generally on the prospects for bookings growth, that would be helpful.

Nancy Cooper - *CA, Inc. - EVP, CFO*

Sure, Gregg. Actually, the third quarter, we did have sequential increase and we expect an even further sequential increase into the fourth quarter. And we still view the full year is going to be down 10%, so actually it's coming in as we anticipated.

The one thing I will say, and I know you've heard me say this a number of times, we do not believe bookings is -- the renewal bookings is the best indicator for our business, and I would ask you to look at the current portion of the revenue backlog, which is up 4% in constant currency, and we actually feel good about our business and that's why we updated guidance.

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

Gregg, do you have a follow-up?

Gregg Moskowitz - *Cowen and Company - Analyst*

I do, thanks. The other thing I wanted to ask you is just looking, Nancy, at your net cash per share. Certainly there's room for improvement, but CA is now in the best position that we've seen, frankly, in many years, and I know you manage the company according to your fiscal year end, but was wondering if you could update us on how you're thinking about two things, share repurchases and M&A, over the next six, 12 months or so.

Nancy Cooper - *CA, Inc. - EVP, CFO*

Well, let me first do the share repurchase. We bought $35 million in the quarter, and as I've said many times, we do a very rigorous capital allocation analysis every quarter and determine what to do. We do have $330 million remaining in our share repurchase authorization and we continue to be in the market.

On M&A, we have -- we guided in fiscal-year 2011 $300 million to $500 million of acquisitions, and we are well within that range and so feel comfortable for this year. And we will give fiscal-year 2012 guidance in May, and at that time we'll update what we view on M&A.

Operator

John DiFucci, JPMorgan Chase & Co..

John DiFucci - *JPMorgan Chase & Co. - Analyst*

Nancy, just a quick follow-up on the bookings. I realize, and I think we all realize, that it's not, I guess, safe to look at those on a year-over-year basis. But just looking at -- you said your renewal portfolio was down 10% this year from last, and I think you just said in response to the previous question that bookings are going to be down 10%, which sort of implies that any new bookings beyond the renewals just replace renewals that didn't renew, which sounds like stagnation. I don't think that's what you're trying to say, but I just want to make sure.

Nancy Cooper - *CA, Inc. - EVP, CFO*

Yes, John, thank you for that clarification. I was referring to subscription and maintenance bookings. That was the -- or renewal bookings. They're down 10%. Of course, that doesn't include any of our new product sales capacity or services. So that is a very important distinction.

John DiFucci - *JPMorgan Chase & Co. - Analyst*

Okay, great, thanks. And a follow-up, I've got a -- I'll pick this one. George, on Europe, George, I think -- it's been a long time that Europe's been a work in progress. Is there something in Europe, in that region, that given CA's, I guess, product portfolio that perhaps -- I know Europeans don't use mainframes as much or something like that's caused sort of a persistent -- I know that we have seen times when it's gotten a little better, but it has been a work in progress for, I'd venture to say, years, and I'm just curious as to what's going on there.

George Fischer - *CA, Inc. - EVP, Group Executive Worldwide Sales and Operations*

Yes, you can see some very good improvement in the pipelines. I don't think there's anything systemic in Europe that conflicts with what we are selling and what we're doing.

We've made the improvements by installing new leadership and top-grading the teams in the big markets, and we're starting to see that happen. In fact, in France, in the southern area, we've got double-digit growth, and as I said, we're very encouraged with the pipelines.

I also, this quarter, saw very strong services engagements, which is pulling through new product and also speeding the adoption of the products we're going. So, I see some good things for Europe, and it continues to get better quarter to quarter.

Bill McCracken - *CA, Inc. - CEO*

And John, I'd comment there, too, is that, as you know, when you have a situation like we did in EMEA, George has made all the right changes and they're starting to take effect.

And the way we're measuring that now, and that's why we say quarters, we're measuring the NCV, the new product, but on the ratable model, it takes quarters to roll through. So, we see the right things taking hold, and that's why we're confident to say it is quarters, but it's coming back to where we want it to be. So, we're on track there, John.

Operator

Walter Pritchard, Citigroup.

Walter Pritchard - *Citigroup - Analyst*

Two questions, I guess. First, as it relates to the long-term revenue growth guidance that you have out there versus this year, you've had a pretty strong macro environment recovery in this year, and you've also had some acquired revenue. I'm just trying to get a sense of, as you look out at that long-term revenue growth guidance, what do you think it is now, looking forward, that you need to do that you're not doing in order to achieve that, I guess, mid to high single-digit revenue growth?

Bill McCracken - *CA, Inc. - CEO*

Okay, Walter. Let me speak to that because I think it's key on really what our strategy is. And there's two key elements. It's the new accounts and it's the new geographies.

And we see both starting to kick in. In fact, one of the encouraging parts about this quarter was on a lot of the new product things like Nimsoft and some of the SaaS offerings, we saw a significant uptake in Asia and Latin America. So those geographies are coming on strong.

That is what we wanted. That's our delivery channel into those places and that's where our growth is coming in the future, so the products that we're driving into the market and the segments we're driving into the market are the right things, so it's just reaffirming of the strategy, Walter.

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

Walter, do you have a follow-up?

Walter Pritchard - *Citigroup - Analyst*

Yes, then just on the upfronts. I noted and you called it out nicely for us there on the increase in upfronts. What drove that year over year? Was that just specific contract terms or any trends in the business that you would expect to persist beyond this quarter?

Nancy Cooper - *CA, Inc. - EVP, CFO*

No, it's really specific contracts, Walter.

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

Okay. Hopefully that cleared it up, Walter. If it didn't, get back in the queue and we can cover it again. Next question, please?

Operator

Kirk Materne, Evercore Partners.

Kirk Materne - *Evercore Partners - Analyst*

Nancy, you've talked over the course of the year about the renewal portfolio being down 10% versus fiscal 2010, and I know you don't want to sort of get into fiscal 2012 too early, but I guess as we head into the next year, are we facing the same kind of headwind for the next fiscal year? I think that's been somewhat of an issue for people to sort of get their hands around it. I realize there's a lot of timing that goes on in these contracts, but as you look into next year, should we feel better that things are a little bit more apples to apples?

Nancy Cooper - *CA, Inc. - EVP, CFO*

Kirk, you know that, I mentioned before, we will give guidance in May, and that's really the appropriate time to give a view on that.

I am -- I hope you all realize, as I've said many times, the bookings -- obviously, this quarter proves they're not correlated with the revenue. Revenue grew 5% this quarter. Our revenue backlog -- current -- constant currency grew 4%, and we think those are both very strong indicators.

Kirk Materne - *Evercore Partners - Analyst*

Okay, maybe on just a different topic. You guys talked about mainframe capacity being up in low double digits year over year, yet you had the one big deal that seemed to push mainframe, I guess, bookings down. I guess going forward, given the price increase in mainframe as well as some of the lift you're getting, I assume your thoughts around mainframe business overall is that it should be able to show growth over this next sort of cycle. Is there anything in your business, I guess, that would offset some of the positive trends from an environmental standpoint?

Bill McCracken - *CA, Inc. - CEO*

No. I think that goes back to what we've been saying is that we have been projecting that for our mainframe business, being a big part of what we are, we are going to grow at or beyond the market growth now and in the future, and I think all the indicators we have say that that's true.

And some of the things that David mentioned earlier on the new products that we are rolling into there, the acceptance level, as he indicated, is significant on that, and I think it just reaffirms to us that we can depend upon what we said, and that is growing with or beyond the market in the mainframe area.

Operator

Phil Winslow, Credit Suisse.

Phil Winslow - *Credit Suisse - Analyst*

Just a couple quick questions here. First, just on the mainframe side. Just wondering if you could just give us a sense for the pricing environment, and maybe compare that to what you've been seeing over the past 12, 24 months, and just sort of how you expect that to maybe trend going forward.

And then, also just on the distributed side of the business, just what is there really standing out as far as driving the uptick in new bookings, but also, what are some of the things that you think you all need to be better on? Thanks.

Bill McCracken - *CA, Inc. - CEO*

George, why don't you -- the first one?

George Fischer - *CA, Inc. - EVP, Group Executive Worldwide Sales and Operations*

Yes. The pricing in general is obviously very competitive, but the value that we're bringing to our clients today on the mainframe has never been higher. And it's certainly about overall value.

And as David mentioned before, we've got several compelling products that are coming out to the market right now that make the mainframe more cost-effective overall. So, I'm seeing good traction there with that.

A lot of winbacks and expansions that we're doing because we built out a software rationalization practice that's very professional and aggressive, and it's exactly what customers want. They want to drive down their costs, but also increase their capability, and that's good for us.

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

Phil, there was a second question there and I think we missed it. Can you repeat that, please?

Phil Winslow - *Credit Suisse - Analyst*

Yes, just on the distributed side of the business, what are some of the product areas you think are doing best right now or sort of exceeding your expectations, and what are the ones where you think you could do a better job on and how are you going to do that?

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

Hey, Phil, it's David Dobson. I would say just the first point is that we have invested in our distributed portfolio to primarily take advantage of the opportunity we're seeing emerging with virtualization and virtualization management as our customers ready themselves to take advantage of the cloud environments.

And so, with that as backdrop, we're seeing strength across the distributed portfolio, particularly -- we talked about in Service Assurance, in our virtualization and automation portfolio, in our service management area, we saw a very strong quarter for our product and portfolio management, which is really core to having our customers understanding how they're performing and establishing service levels.

So quite frankly, we're pleased with how we're performing. The real opportunity for us is in areas like virtualization management and automation. We're still relatively small, so over time having those become larger transactions and just getting more customers, on top of the 40 new customers we got in the third quarter.

Operator

Aaron Schwartz, MKM Partners.

Aaron Schwartz - *MKM Partners - Analyst*

You talked a little bit about the acquisitions and the impact on the margins. Can you just provide an update in terms of where you are on the leverage?

And then, as we look into next year, would you expect the acquisitions you've done this year to sort of be neutral as we enter the next year at the margin?

Nancy Cooper - *CA, Inc. - EVP, CFO*

Sure, Aaron, again, we really give guidance on next year in May. I would say we're very encouraged, and I think you heard Dave talk about some of the contributions some of these acquisitions have made to our strategy. So we feel very encouraged, but it would be premature for us to make that call.

Aaron Schwartz - *MKM Partners - Analyst*

Okay. And then, maybe just a follow-up question here on the renewal business. You talked about sort of an acceleration here into the third quarter, and also expecting acceleration into Q4. Is there any way you could talk maybe qualitatively, is that acceleration sort of on the same trajectory, or is it sort of greater or less, or can you just put some more color around that?

Bill McCracken - *CA, Inc. - CEO*

When you say acceleration, are you talking about revenue? What are speaking to?

Aaron Schwartz - *MKM Partners - Analyst*

The renewals.

Bill McCracken - *CA, Inc. - CEO*

The renewals, okay. Nancy, go ahead.

Nancy Cooper - *CA, Inc. - EVP, CFO*

Sure, I just want to clarify, we're talking about sequential increases from third quarter and further sequential increases in fourth quarter, and overall renewals are what we -- what I had commented previously, which for the year are down 10%.

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

Aaron, did that -- I'm not sure if you're still on, Aaron, but does that clarify your question? Unfortunately, he's off. We can follow up with Aaron after the call. Next question, please.

Operator

Derek Bingham, Goldman Sachs.

Derek Bingham - *Goldman Sachs - Analyst*

Kind of a follow-up on the margin question. Could you give us an update on what you expect the total margin dilution from M&A to be this year?

Bill McCracken - *CA, Inc. - CEO*

Nancy?

Nancy Cooper - *CA, Inc. - EVP, CFO*

I think the guidance we have given, it was $0.06 diluted when we started the year. In our recent update on margin, we've said that fiscal-year 2011 acquisitions added a little bit more to that. That's why we're comfortable being at -- we narrowed the range on the margin to 34% for the full year.

Derek Bingham - *Goldman Sachs - Analyst*

And I mean, just -- is there any granularity you could give on the dilution that you'd expect in the March quarter, kind of versus what we saw in the last couple of quarters, just in terms of seeing kind of directionally how that's changing, or has it been pretty stable across those periods?

Nancy Cooper - *CA, Inc. - EVP, CFO*

Sure, so we're three quarters through the year and we're averaging about 34%. In my comments, I mentioned we do always have the sales commission in the fourth quarter, and typically that quarter is a little lower, and I gave an update on our guidance that we narrowed the range to 34% margin guidance.

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

Great. Next question, please.

Operator

Shaul Eyal, Oppenheimer & Co..

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Bill, you returned to CA, I think it was about a year ago, maybe February, as the CEO. You lay out the strategic plan direction. How do you see your strategic kind of direction heading forward and kind of how do you see CA progressing so far, and maybe any specific area that you would like to improve heading forward?

Bill McCracken - *CA, Inc. - CEO*

Well, Shaul, that's probably the area that's most encouraging for us, frankly, is that we set in place the acquisitions and the development that we're doing internally to go after the virtualization and the cloud areas. And that is what has been really the most productive for us as we're going through this year. So, it's encouraging.

Probably the more encouraging piece about that is is this industry and the customers that I call on across the world, they're moving there further and faster than we anticipated or expected was going to happen, so it's just planned to where we're going.

I mentioned briefly before, then, the growth accounts and the growth geographies. Those are the key focus areas for us. Those are the investments we're making this year. We're beginning to see payback on those now. But the real benefit, we think, comes in fiscal-year 2012 and beyond.

So, it's really just lining up for us, and we're feeling very good that's all that we're talking about here and have this year is going the right direction and is going to take us where we said we were going to go.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Thank you. Good luck.

Operator

Michael Turits, Raymond James & Associates.

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Michael Turits - *Raymond James & Associates - Analyst*

Back to the bookings questions, and renewal. So, bookings were down 5% in the quarter year over year. How much was the renewal portfolio down this quarter?

Nancy Cooper - *CA, Inc. - EVP, CFO*

We don't break out specifically that portion on the bookings, Michael. But it is the largest portion of our bookings, so -- and it is reflective of -- overall, our full-year guidance has third quarter, sequentially we improve, fourth quarter, we anticipate even a larger sequential increase, and full year, we're reiterating, we believe it will be down 10%.

Bill McCracken - *CA, Inc. - CEO*

And then, Michael, Nancy has been speaking to that, but the thing I have said over the past quarters as well, too, and Nancy had said earlier in her comments to begin with, but the revenue backlog, especially the current revenue backlog, is what I look at here, and it's what we focus on.

And the other thing is the sequential growth quarter to quarter was over 20%, and so that, along with the guidance we've given you, which we feel very comfortable with, we think has this in line.

Michael Turits - *Raymond James & Associates - Analyst*

So, just on a slightly separate topic, the billings backlog in respect to future cash collections, those both decelerated in this quarter. Sorry to bring up the negative stuff, but it's our job. So, 6% of current billings backlog growth last quarter, down to two in constant currency, the fact that cash collections went slightly negative, is that just a function of the single installments that you had in this quarter? So was that kind of a pullforward, or do you view that cash collections as stable and indicative of good cash growth going forward, because that trend is down?

Nancy Cooper - *CA, Inc. - EVP, CFO*

Sure, Michael. The current portion of the backlog did grow at 2%, and as you are really familiar, cash flow is very lumpy in our business. Sequentially, fourth quarter is our largest seasonal quarter, and we just said that it increases from third quarter. And the last part is we just reiterated guidance, so I'm very comfortable with cash flow.

Bill McCracken - *CA, Inc. - CEO*

(Multiple speakers). Okay, so let me just wrap up and really try to summarize, I think, primarily in four points where we were today and what we're telling you is that it was another strong quarter. We're pleased with that and looking forward to what we said is going to happen in the fourth quarter.

The other thing is the trend in the marketplace, with respect to virtual and cloud, it's going our way. It's what we planned for. It's what we put in place. It's happening, and the customers are telling us that it is happening and they are buying the products that indicates that it is. And the new initiatives that we have underway with respect to growth accounts and growth geographies are already showing results, and we know that as we move into the next year, that will continue.

And then, finally, just to wrap up, fourth quarter looks good and the year looks good, as we said, and Nancy gave you the new guidance. So, thanks to all of you for it. I think great questions, enjoyed the dialogue with you, and we'll talk to you next time.

Operator

Ladies and gentlemen, that does conclude our conference call for today. Again, thank you for your participation.