Joseph Doncheski

Thank you and good afternoon everyone. Welcome to CA's Second 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 Wednesday, October 29th 2008 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. These documents 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 John Swainson.

John Swainson

Thanks Joe.

Good afternoon and thank you for joining us.

I am going to start with a few comments on the current economic environment and our second quarter performance. Then, I will turn it over to Nancy Cooper who will take you through the numbers before opening it up for your questions. I will then return for some brief closing remarks.

I am pleased that CA had another solid quarter in what we all can agree is a challenging economic environment. We executed well, driving bookings and profit, cost improvements and cash flow. I am proud of the way our employees have risen to the occasion and kept to the task of serving our customers. We continue to improve our business operations on a daily basis.

Based on our first half performance and our outlook for the second half, we are increasing our guidance for GAAP and non-GAAP earnings per share, cash flow from operations and bookings for our fiscal year that ends March 31. In addition, we are updating our revenue outlook to indicate that we anticipate that full year total revenue growth will be at the lower end of our guidance.

We also today announced that our Board of Directors has authorized the Company to buy up to $250 million of our common stock. This action demonstrates our confidence in CA's long-term value and our ability to build shareholder value.

As I said, we are operating in a challenging environment, but I believe we are well suited to navigate these current economic circumstances. Let me take a few minutes to tell you why.

First off, our subscription business model is reliable. As all of you know, we come in to each quarter with a substantial portion of our revenue already known. While this does not make us immune from the current economic conditions, it does give us the ability to continue to make decisions with a long-term outlook. Another advantage is that a majority our customer engagements are long term – from three to five years -and that more than half of our revenue comes from our mainframe business, which is based largely on capacity and maintenance. Mainframe relationships tend to be longer due to the maturity of the product line and the way our software is deeply embedded in our customers' operations. Like our mainframe products, our distributed products focus on helping customers increase efficiency, cut costs and mitigate risk -- always important, but even more so in an economic downturn. These three factors help provide stability to our renewal portfolio and help us capitalize on new selling opportunities.

During the quarter, we signed several large contracts including one with a large systems integrator and a number with financial institutions. These large deals, which revolved around the renewal of existing contracts and included additional mainframe capacity and the sale of new CA technology, had very good economics for CA as well as for our customers. While there was little short-term impact on our second quarter results beyond the favorable impact on bookings, the benefit from these contracts will be felt in future quarters as we have cemented our relationships with these valuable customers for a number of years. I am pleased that we were able to make these renewals in the current economic environment, particularly the renewals in the banking industry, which I believe demonstrate the value we provide to customers.

Secondly, I believe the role CA products play in the data center will be even more important as companies improve their IT operations to enable business success. We all know that the advancements in IT – virtualization, cloud computing, Software As A Service – add layers of complexity to already complex systems. At no time will the performance of IT systems be more important than now.

Thirdly, we have been working continually over the past years on cost structure improvements and putting in place process changes that will improve our operations. Over this period, we have eliminated and shifted headcount, reduced our facilities footprint and made substantial investments in our internal systems and processes. These efforts have resulted in costs savings, which are reflected in our operating margin, which has improved to about 30 percent. Equally important, we have used this discipline to ensure that we have the resources available to invest in our business and capitalize on market opportunities. We are not done. We will continue to focus on cost structure, efficiency improvements and on making the investments in product development and our sales force that will provide the solutions and relationships required to capture market share.

Finally, I would like to make a few comments on the financial industry. As you are aware, about a third of our business comes from this sector, which we define as banks, insurance companies and brokerage firms. The majority of these arrangements are for the renewal of capacity and maintenance of our products over periods ranging from 3 to 5 years. We have assessed our deferred revenue portfolio and the near term implications on revenue over the rest our fiscal year are minor and can be strategically managed. Long term, we may see some pricing pressure as these contracts renew over the next several years. As we have done in the past and due to the staggered nature of our renewals, we can mitigate these situations by selling increased capacity, new products and winning new customers. To our benefit, we have relationships with virtually all the largest companies, and have demonstrated our value and expanded our relationships over the years as the sector has consolidated. To some degree, financial industry consolidation is what we are accustomed to, but this is at an accelerated pace. We believe that the mission critical, data-intensive transaction processing that is done in financial services will continue to require CA's software and that our software value increases as consolidation continues and IT systems are integrated. Generally and as we've seen in the past in financial services consolidations, the underlying accounts, customers and service requirements don't go away, they just move to the new company. There are still transactions that need to be processed regardless of the name on the door. Our value is in insuring that theses transactions are done efficiently, cost-effectively and securely.

So, now let me take you through the second quarter highlights:

- Total bookings were strong, up 44 percent over the same period last year.

  - Our bookings strength was led, as I said, by the signing of a number of large deals. Several of these deals were five year renewals and helped increase the average contract length. In this environment, we will gladly sign long term deals if they make economic sense for CA and the customers, especially if they promote strong, long-term relationships. In general, we still target contract lengths in the three-year range. We also saw considerable growth in new mainframe capacity and maintenance. Our mainframe business continues to perform well as more companies are adding capacity due to the momentum behind IBM's release of the z10;

  - Sales of infrastructure management solutions, based on our Enterprise IT Management strategy, excelled during the quarter. In the infrastructure area, we saw increased demand for our eHealth and Spectrum and service management offerings. We also saw strong demand for our application management solutions and demand for our IT governance solutions.

- Our revenue was up 4 percent and in line with expectations;

- Non-GAAP earnings per share growth year-over-year was 28 percent, driven in part by our long-term focus on business process improvements and expense management, and;

- Cash flow from operations was $218 million.

These are the highlights. Let me now talk about advances we've made in bringing industry leading solutions to the market and the value to customers.

As I told you in our June quarter earnings call, we planned a major products launch in October. A few weeks ago we made the announcement featuring 10 new and upgraded products including CA Data Center Automation Manager, – our exciting new offering that helps customers automate the dynamic provisioning of physical and virtual environments. This was our second major launch this year, with CA-developed products that help customers adapt to change, capitalize on new opportunities and control costs. The announcement represented the next step forward in our Enterprise IT Management strategy that focuses on enabling customers to derive more business value from IT. You'll see more even more at CA World next month.

Without question, we operate in a very competitive environment, but we are winning. Let me provide you with a few examples:

NETCOM, or Network Enterprise Technology Command, is responsible for communications capabilities across the US Army globally. This organization calls itself "Voice of the Army" and turned to CA to standardize its Infrastructure Management tools.

NETCOM's needs were clear: To consolidate its IT infrastructure, standardize on a common solution and refresh its product set to fulfill current and future responsibilities.

Working together with the NETCOM team, we created an end-to-end management infrastructure using CA's Spectrum and eHeath solutions to keep the Army's critical networks available and reliable and at the same time reduce their operational costs considerably.

I am particularly pleased with the progress we are making in the government sector. We have made growing our sales in the federal business a priority and we have started to see results.

The second win I'd like to discuss is with Intuit, the premier provider of software for tax preparation in the United States.

Intuit needed a solution to provide end-to-end monitoring of its IT infrastructure to ensure that its systems don't go down. Intuit turned to CA and we provided our CA Wily Application Performance Management Solution which will ensure that all Intuit's critical systems are operating efficiently during the 2008 tax filing season and beyond.

With more than 60 million Americans filing tax returns using Intuit's Turbo Tax software, it is clear that a system outage would be catastrophic. The partnership between Intuit and CA will go a long way in making sure that it doesn't happen.

Now let me turn it over Nancy.

Nancy Cooper

Thanks John - Good afternoon everyone and thanks for joining us.

I'll begin by reviewing our second quarter financials,
update our outlook for fiscal 2009 and then comment on today's stock buyback announcement.

I'll begin with total bookings which increased 44 percent to $1.5 billion compared to the year ago period. The weighted average life of subscription and maintenance bookings was 4.14 years, as compared to 2.97 years in the prior year period. When annualized, the year-over-year increase in subscription and maintenance bookings for the quarter was 11 percent, or 8 percent on a constant currency basis.

North America and EMEA drove bookings strength in the quarter. We saw continued momentum in our mainframe business from IBM's introduction of the Z10 with bookings of mainframe capacity showing strong growth.

Likewise, we saw growth in new license sales in both our mainframe and distributed businesses. While this can fluctuate period to period, we are seeing traction in our ability to sell new licenses to new and existing customers.

We believe the mix of our reliable renewal business and the strength in our new license sales positions us to continue improving our bookings performance in the future.

While we are pleased by the bookings performance in the quarter, it's important to note how bookings translate into revenue. Revenue can be impacted by the composition of bookings - including;

terms of duration, mix, signing of renewals and whether the license is upfront or ratable.

Bookings from renewals may not translate to incremental revenue until later periods.

Total revenue in the quarter was $1.107 billion, up 4 percent from the prior year, or flat on a constant currency basis.

Our continued focus on professional services profitability worldwide and APJ's transition to an indirect model will continue to impact revenue over the next couple of quarters.

Benefiting revenue in the second half, and why revenue growth increases, is the continued roll-off of FY06 bookings which is being replaced by a stronger FY09 book of business.

We enter any given quarter with over 80 percent of our revenue rolling off the balance sheet. This highlights the resiliency and visibility of our subscription model which is particularly valuable in the current economic climate.

The ability to maintain but also grow our backlog in the current environment speaks to the sticky nature of our software and this revenue backlog grew 13% in the quarter, which bodes well for growth in future fiscal years.

From a geographic perspective, North American revenue in the quarter was up 3 percent over the prior year and International revenue increased 4 percent, or down 4 percent on a constant currency basis.

Non-GAAP operating expenses for the quarter were $762 million, down $17 million or 2 percent from the prior year, or down approximately $60 million or about 8 percent when all impacts of currency are eliminated.

Non-GAAP operating income before interest and taxes for the quarter was $345 million, up 20 percent from the prior year.

Non-GAAP operating margin for the quarter was 31 percent, a year-over-year increase of 4 percentage points. Non-GAAP operating margin, excluding stock based compensation, was 2 points higher, or 33 percent.

Our ongoing focus on optimizing our cost structure and driving further operating efficiencies continues to drive margin expansion.

These initiatives have resulted in annualized savings of about $300 million.

Since we are realizing the benefits faster than previously indicated, we now expect full year non-GAAP operating margin between 29 and 30 percent, or 3 to 4 points higher than last year.

Non-GAAP income for the quarter was $219 million and non-GAAP EPS was $0.41, increasing 27 and 28 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 future periods.

Including these items, total expenses before interest and taxes for the quarter were $777 million, down 6 percent from the prior year.

Now, to finish up the income statement, GAAP income for the quarter was $209 million, or $0.39 per diluted common share, increasing 53 and 50 percent from the prior year respectively.

Cash flow from operations in the quarter was $218 million, a year-over-year increase of $25 million.

Cash flow strength in the quarter was driven by a decrease in disbursements primarily related to payroll.

We are also pleased that cash collections were up slightly and in the current environment, we were able to achieve a year-over-year decline in DSO.

Cash collections from single installments were flat in the quarter and down for the first half versus prior year periods. Both were down as a percentage of total product bookings for both the quarter and the first half versus prior year periods.

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 $161 million.

Also, given the uncertainties surrounding the current financial markets, it is important to stress that our cash is invested conservatively.

We are also mindful of our debt maturities in calendar year 09 and have the ability to redeem them with cash on hand.

Earlier I referenced the strength of our balance sheet. In our subscription model there are two foundations for future financial performance.

The first of these is the revenue backlog, which this quarter grew by 13 percent from the prior year and exceeded $7 billion in the quarter.

This revenue backlog combined with billings backlog growth of 19% and total expected future cash collections growth of 13% gives me confidence in CA's strengthening fundamentals. This is revenue and cash under contract for the future.

Now with that, let's discuss our updated guidance for fiscal year 2009:

- We expect revenue growth to be at the lower end of guidance in constant currency at 2 percent. At current foreign currency exchange rates, this translates to reported revenue of about $4.3 billion which reflects the recent strengthening of the U.S. dollar.

- Total bookings growth increases to 10 to 15 percent from the previous guidance of mid-to-high single digits, primarily resulting from the longer duration in the first half.

- Non-GAAP EPS increases to $1.48 to $1.55 from $1.45 to $1.52, representing 24 to 30 percent growth.

- GAAP EPS increases to $1.31 to $1.38 from $1.28 to $1.35, representing 41 to 48 percent growth, inclusive of approximately $30 million of restructuring charges.

  Both GAAP and non-GAAP EPS guidance factors in a currency adjustment of 8 cents in the second half of the year due to the strengthening dollar.

- Cash flow from operations increases to $1.15 billion to $1.20 billion from $1.15 billion to $1.18 billion, representing 4 to 9 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 material 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.

Finally, we announced today that our Board has authorized a new $250 million stock repurchase plan.

This move is reflective of the Board's continued confidence in CA's market opportunity and long-term strategy. Our strong cash position and cash generating capability allows us to opportunistically repurchase shares at attractive levels with cash on hand. Current guidance does not reflect the impact of share repurchases.

I feel good about our performance in the second quarter and the opportunities we see for the second half of the year

And with that, let's open the call up for questions.

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

	Fiscal Year Ending March 31, 2009	
Projected GAAP Operating Margin range	26%	27%
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	29%	30%