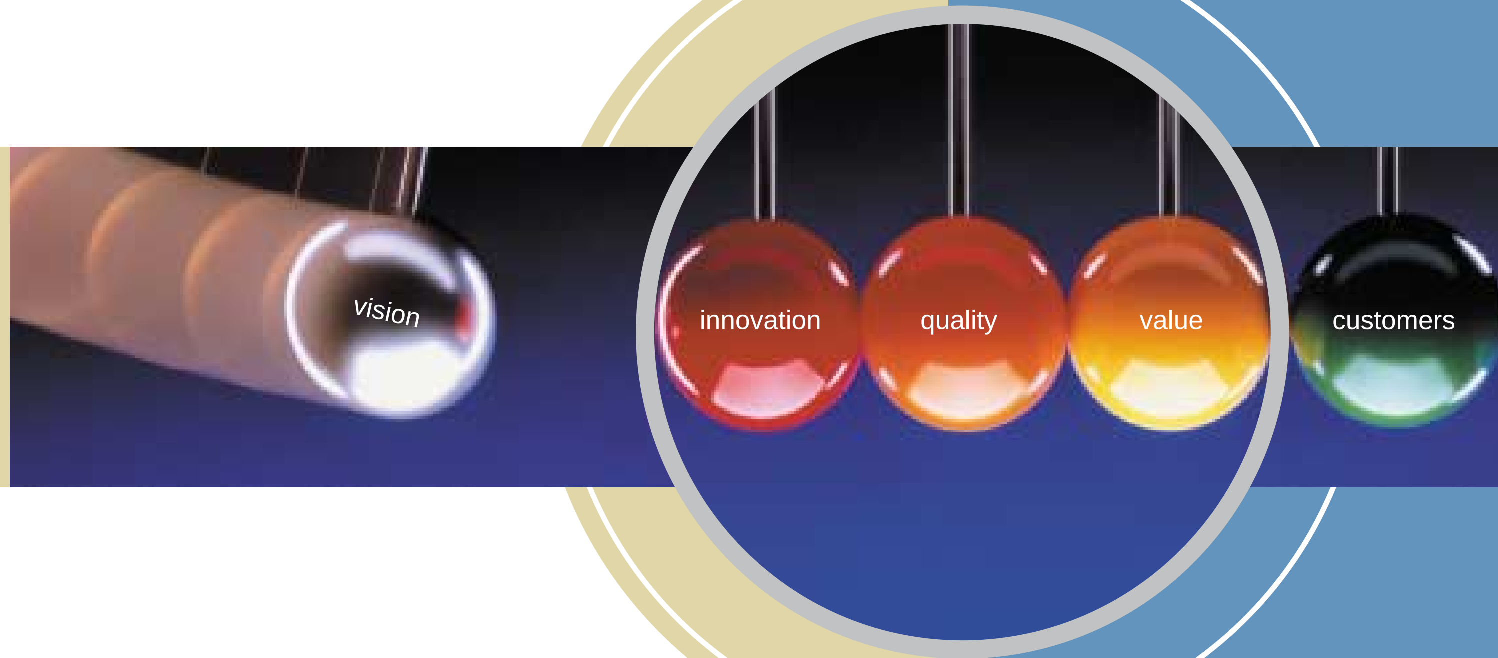
Computer Associates™

ca.com



Annual Report 2002

Fiscal Year Ending 3/31/02

Computer Associates™

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Financial Summary

As discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations, the Company introduced a new business model in October 2000 which resulted in a change in the way we recognize revenue for software sales.

(in millions, except per share data)	2002	2001
Revenue	**$ 2,964**	$ 4,190
Net Loss	**$(1,102)**	$ (591)
Diluted LPS	**$ (1.91)**	$ (1.02)
Net Operating (Loss) Income[1]	**$ (265)**	$ 96
Diluted Operating (Loss) EPS[1]	**$ (0.46)**	$ 0.16
Dividends Per Share	**$ 0.08**	$ 0.08
Cash from Operations	**$ 1,251**	$ 1,383

1—Net Operating (Loss) Income and Diluted Operating (Loss) EPS exclude acquisition amortization and special items. See Management's Discussion and Analysis of Financial Condition and Results of Operations for details of the special items.

Chairman's Letter

Dear Fellow Shareholder:

As we all know, 2002 was a challenging year for CA, as it has been for much of corporate America. The problems we faced have been well documented. They have also been shared by many other businesses, particularly companies operating in the technology sector, which has been hard hit by the continued economic slowdown.

Despite the challenges we face, I believe that Computer Associates is better positioned for future growth than it has ever been. Over a year and a half ago, we introduced a dramatically different business model that gives our customers much greater flexibility in licensing CA software. This model represents our focus on the future. It is helping us deliver the true value of CA technology in ways that build long-term relationships, which in turn will drive future growth.

I am proud to say that in 2002, CA maintained its commitment to public trust. Our commitment begins with CA's Board of Directors and flows through each of our employees around the world, permeating all that we do on the job and in our communities. We account for this in several ways.

First, CA raised its already-high standards of corporate governance by making several strategic moves. Most significantly, we added two quality independent members to our Board of Directors by welcoming Walter P. Schuetze and Jay W. Lorsch. Walter Schuetze is the former chief accountant to the Securities and Exchange Commission and chief accountant of the Commission's Division of Enforcement. Professor Lorsch is the Louis E. Kirstein Professor of Human Relations at Harvard Business School and a noted corporate governance expert. Given their long and strong reputations in their respective areas of expertise, we anticipate their meaningful insight and contributions to CA's business and management. I remain confident in our board's ability and am inspired by its ongoing commitment to success.

We also adopted corporate governance Best Practices, including guiding principles such as establishing the role of a lead independent director and determining the rotation and makeup of various committees of the board. Lewis S. Ranieri, former vice chairman of Salomon Brothers, was elected as CA's first lead independent director.

Second, we know that our corporate character is increasingly defined by our actions in our communities. We commit time and resources to make a difference through dedicated giving and through nonprofit partnerships to help children excel.

We partner with specific nonprofit organizations that can help us make the most impact, such as: The Digital Schoolhouse® Foundation, National Center for Missing & Exploited Children, Junior Achievement, The Smile Train and KaBOOM!.

The results have been remarkable. One out of every five CA employees volunteers for these causes. We have donated thousands of hours, millions of dollars and numerous technology solutions to more than 4,000 charities around the world.

In our daily work and in our communities, CA will strive to maintain the trust of our constituents by continually transforming the way we operate our business and delivering on our commitments.

CA has never been better positioned for the future. With the leadership of our President and CEO Sanjay Kumar, the executive management team, the support of a talented Board of Directors and our team of dedicated employees, CA will continue to deliver value to its customers and shareholders.

Thank you for your continued support,

Charles B. Wang
Founder and Chairman

President and CEO's Report on Fiscal 2002

Dear Fellow Shareholder:

Fiscal 2002 (ended March 31, 2002) was a defining year for Computer Associates International, Inc. (CA). In the midst of substantial macroeconomic pressure, a national tragedy in the USA and increasing enterprise demands, CA delivered innovation in technology and business through an unprecedented focus on customers.

Innovation takes many forms. At CA, innovation means delivering on a real vision through creativity and courage. A vision of technology that does not benefit customers is an empty vision. This year, CA continued to lead the industry in delivering multiplatform software that provides seamless integration with existing systems — a key customer need. CA has led the way in making Linux a viable, business-critical platform for the Fortune 500®. With more than 50 Linux-based applications available, we are giving our customers the technology choices they need to best run their businesses. CA also recognized the impact mobile technology is having on the corporate environment and has demonstrated its ability to manage the entire extended enterprise. This past year, we put world-class software technologies and business Best Practices to work for our customers through real solutions that solve real problems.

Our efforts are paying off: Our business is solid, our customer relationships are stronger than ever, and we're evolving to meet the next-generation of business challenges and helping drive growth.

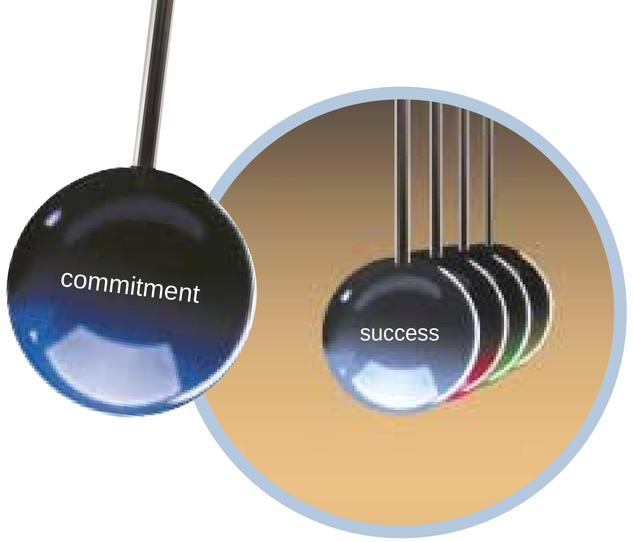
First, I am pleased to report that CA is financially healthy. In fiscal 2002, we carefully controlled our expenses, repaid close to $600 million in debt and generated $1.251 billion in cash from operations. In fact, for the fifth straight year, CA has generated more than $1 billion in cash from operations. We ended the year with almost $1.2 billion of cash and marketable securities, having succesfully completed a $660 million capital markets financing in the form of a convertible note issuance in March 2002. In addition, we accumulated approximately $3.23 billion in aggregate deferred subscription revenue, which is committed future revenue from signed contracts with customers.

Under Generally Accepted Accounting Principles (GAAP), we delivered revenue of $2.964 billion in fiscal 2002 compared with $4.190 billion in fiscal 2001 and diluted operating loss per share (excluding acquisition amortization and special items) of $0.46 compared with diluted operating earnings per share of $0.16 last year. Our reported revenue for fiscal 2002 was impacted by our business model change in the third quarter of last fiscal year. As we have reported previously with our current business model, revenue is recognized ratably over the life of the contract rather than all at once at the beginning of the contract.

CA had a great 2001, as evidenced by *The Wall Street Journal*'s report identifying CA as one of the top performers for the year. Unfortunately, in 2002, our stock price has been overshadowed by government inquiries with respect to our historical accounting practices. As we've reported, we intend to continue to voluntarily cooperate to see this matter through.

Second, we continued to evolve our corporate structure to better serve customers. While many companies talk about a customer focus, we take action. We believe technology should enable business, not make it harder. We see our role as a proactive, strategic partner who helps customers use technology to make doing business easier. Our goal is to better serve customers in ways that they find valuable. We are achieving this goal by keeping customers first in all our actions.

For example, in October 2000, we boldly broke from the software industry pack by licensing our software on a subscription basis. As anticipated, customers are telling us they value the flexibility our business model affords. Specifically, our business model has been helping customers reduce their risk of, and manage their return on, information technology (IT) investments. Customers are now able to license CA software on a month-to-month basis, which enables them to measure the return on their investment prior to making longer-term commitments. CA also provides scalable contracts that let customers pace their software spending with the growth of their businesses.



We believe we are providing a more visible and predictable revenue stream for our shareholders. And, our business model has become a competitive advantage for CA. Customers are now, more than ever, viewing CA as a strategic partner.

We're getting a critical seat at the table where we provide insight into the impact technology can have on our customers' business decisions.

Overall, our business model represents our focus on the future. It is helping us deliver the true value of CA technology in ways that build long-term relationships, which in turn drive growth and shareholder value.

To further demonstrate our customer focus, we aligned our business more closely with the interests of our customers by creating brand units within CA. Each team is led by a seasoned CA executive in each of the Company's six focus areas — Enterprise Management, Security, Storage, Portal and Business Intelligence, Application Life Cycle Management, and Data Management and Application Development. Each executive is responsible for development, product marketing, product support and quality assurance, while our unified sales and service organizations will ensure customer continuity and powerful cross-selling. With this new structure, CA is well positioned to benefit from the future growth anticipated in these markets.

This concept drew immediate praise from our customers. Following a successful trial with one of our six focus areas, we moved quickly to implement this structure throughout our organization. We believe our focused attention will help us deliver more value to all our customers and drive long-term customer satisfaction.

During the year, we also launched CustomerConnect℠, our family of web-based services that makes it easier for customers to do business with CA. Customers can order and download products, update their account information and obtain support and assistance, all at their keyboards — any time of day or night.

In short, every action we have taken has been designed to help customers derive the most value from both their CA technology and their relationship with us.

Third, we continue to push innovation in technology and business Best Practices to drive growth. Increasingly complex enterprise environments challenge our customers. They are under pressure to deliver more from their software investments. A more mobile workforce, increased security needs because of wireless devices and Internet-driven global networks, and the rise of Web Services all contribute to a mounting challenge for today's IT managers.

Our business is to understand complex problems and offer smart solutions. We continue to evolve our software based on open standards to meet these next-generation computing and business challenges.

For example, we have extended our industry-leading technologies to new platforms, new devices and emerging infrastructure elements, such as wireless. Our branded solutions address a broad range of business challenges in markets where we believe there are growth opportunities, such as enterprise management, storage, security, and portal and business intelligence.

Because our solutions are based on open standards and are integrated, customers can determine which capabilities they need today, while knowing that our solutions will integrate seamlessly when they need additional functionality and software. CA is the global leader in managing the enterprise. No other company can truly make this claim. In the past three decades, CA has been the only independent software company to consistently rank in the top ten, based on a rating of software revenue.

"Never have we had such a powerful opportunity to so clearly demonstrate the true value of CA and drive our corporate growth. Never have we had such a chance to deliver uncompromising performance, quality and innovation to our customers and shareholders. I believe this is one of the most exciting evolutions in our corporate history."

Our commitment to platform independence will never change. Because of this commitment, we will continue to serve customers for decades to come.

As technology evolves, we remain committed to helping customers navigate and benefit from advanced functionality, drive new efficiencies and tie their technology to their business requirements.

Our job is to be a realistic visionary who understands where the market is headed and develops effective software solutions to help customers better manage their businesses. CA must enable customers to make smarter, more informed decisions — not overload them with data. That's how we'll remain a strategic partner and how we'll grow our business.

To this end, over the past three years we have invested close to $2 billion in research and development (R&D). In the past year, our R&D investment represents 23% of our revenue. The money we have invested has been well spent. First, we have maximized our investment by leveraging the technology and innovations across all our solution areas. This technology is called CA Common Services™. CA has been at the forefront of promoting the importance of nonproprietary development and building a quality infrastructure for all of our solutions. The benefit is more efficient and productive research and development for CA. Second, we deliver faster speed to market, better availability and more effective solutions for our customers. They benefit from the efficiencies inherent in our approach. This past year, we initiated R&D efforts that encourage customers to be our partners in developing high-quality solutions. We introduced more than 200 new technology releases across our brands in the last year alone. To date, CA has secured more than 200 patents worldwide, with more than 800 patent applications pending.

Through all of our efforts, we're maintaining a corporate character defined by our Core Values and personified by our actions at work and in our communities around the world. Every member of the CA Team is committed to, and held accountable for, representing CA's Core Values.

Some call this leadership in action. We consider it good business.

Never have we had such a powerful opportunity to so clearly demonstrate the true value of CA and drive our corporate growth. Never have we had such a chance to deliver uncompromising performance, quality and innovation to our customers and shareholders. I believe this is one of the most exciting evolutions in our corporate history.

Thank you for your continued support,

Sanjay Kumar
President and Chief Executive Officer

"Nothing demonstrates commitment better than action."

The CA Commitment

Nothing demonstrates commitment better than action. At CA, we take our commitments seriously. We are committed to quality, innovation and our customers because, together, they drive value. From our business model to our CustomerConnect and Customer Relations Organization to our ISO 9002 global certification and quality focus, we introduced and enhanced a number of innovative programs to deliver extraordinary value to our customers.

"We have made a commitment to deliver value to our customers and our shareholders. We take this commitment seriously. We are continuing to build a company that will remain strong and profitable for the long term by investing our resources in areas that will drive sustainable growth for the future."

Sanjay Kumar
President and Chief Executive Officer
Computer Associates International, Inc.

Delivering Value

Our business model represents our approach to doing business. It's more than just an accounting change. It's about how we think and act. Every day. With every customer. There are three areas of everyday actions that reflect the impact of this approach:

- Customer Focus: In all our interactions, we will put customers first. From our Customer Relations Organization to our Service and Support to how we answer the phone, each and every one of our 16,000 employees is focused on how to better serve our customers. We listen to customers and deliver the technology they need. In other words, we provide valuable solutions, not shelfware.
- Accounting: Our business model provides unprecedented flexibility to our customers. It is simple and transparent. They can license software month to month, or purchase a one- to three-year contract. Payments for technology can be standard or metric-based. This model also affects how we book revenue. By recording revenue over the life of the contract, we provide stability and accountability.
- Accountability: Our approach to business helps make us accountable in two very important ways. First, we help customers ease the risk inherent in technology implementations. Across industries, only 23% of IT projects are ever completed. With our flexible contracts, CA customers can start small and map their investment in CA technology as their business needs grow. Second, we hold our employees accountable for our customers' satisfaction. For example, a percentage of sales compensation is withheld until a customer indicates they are satisfied. Additionally, CA has tied compensation of the top 500 managers across the Company to customer satisfaction and Company performance.

Our business model is designed to give customers complete flexibility in managing their businesses. It's part of our strategy to deliver the true value of CA technology to customers, while making it simpler and more cost-effective to do business with us.

"The CA business model is truly a revolutionary way of doing business. While forging new ground can be challenging, CA's leadership in adopting flexible, month to month licensing is not only a reasonable response to customers' demands, but it also complements the Company's tradition of innovation."

Walter P. Schuetze
CPA
Former Chief Accountant —
Securities and Exchange Commission

"At CA, we are committed to delivering value."

Building Strong Brands

Strong brands deliver value. They represent the trust customers place in our Company and our solutions. Our most important brand is that of CA. Our efforts to communicate our Company vision and the significance of our solutions are critical to delivering the value inherent in the overall CA brand.

Over the years, we have learned the importance of communicating clearly and succinctly the solutions that make up the CA brand. We used to struggle with promoting our products, and their real value wasn't always obvious. But since the beginning of our branding efforts two years ago, we have seen growth in the value of not only our solutions, but in the overall CA brand. While this is great progress, we have further to go. We will continue to communicate and reinforce the value inherent in our brands.

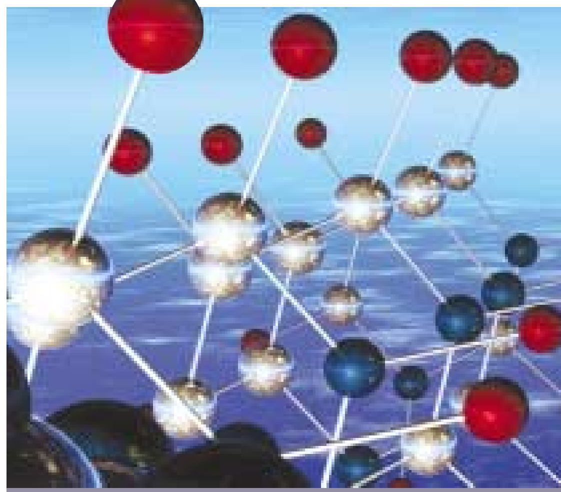
"For more than 26 years, CA has concentrated on delivering long-term shareholder value. It's not about this quarter or this year. It's about our commitment to the future, both for our customers who rely on our technology and our shareholders who rely on consistent performance."

Charles B. Wang
Founder and Chairman
Computer Associates International, Inc.

As part of this effort, during the past year, we formally introduced the CA family of brands: Unicenter®, the established brand for Enterprise Management; eTrust™ for Security Management; BrightStor™ for Storage Management; CleverPath™ for Portal and Business Intelligence; AllFusion™ for Application Life Cycle Management; Advantage™ for Data Management and Application Development and Jasmine® for Object-Oriented Database Technology.

To further extend the CA brand and provide customers with truly integrated, comprehensive solutions from CA and its partners, we also developed the ca smart™ Seal of Excellence. It's another way CA is building strategic partner relationships and delivering valuable, comprehensive solutions to customers.

Our brands capture and build upon our success within the industry. They help us deliver value to our customers through recognized solutions backed by CA's more than 26 years of experience.



Innovation at Work

From simple computers to mobile workers, technology's constant evolution is driving faster, more efficient business, better service and the need for increased flexibility. But each advance creates a more complex IT infrastructure for support. And that infrastructure needs to be managed.

CA continues to evolve its world-class solutions right along with growing infrastructure needs. Our job is to understand the increasing demands on our customers and their businesses and offer smart solutions that solve real problems.

For more than 26 years, we've been doing this job well.

We provide business-critical technology that serves as the backbone of commerce and shapes the way business is conducted throughout the world.

As technology continues to advance, our innovative solutions will continue to drive our growth. We are applying our core expertise to new opportunities that help customers tie their technology to business requirements, drive efficiencies and enable them to make better-informed decisions.

"Great companies from around the country and around the world list their shares here at the New York Stock Exchange. They depend on us each day to serve their investors with over 1.3 billion shares changing hands. Computer Associates provides a critical part of our IT transaction processing network. Investors depend on us and we depend on CA."

Richard A. Grasso
Chairman and Chief Executive Officer
New York Stock Exchange

Our solutions are built on a common software infrastructure, can be used in a variety of mainframe and distributed environments, are integrated and are platform-neutral. Regardless of the hardware or software that a customer is using, we have specifically designed our solutions to integrate seamlessly. In fact, our commitment to open standards and integration has been a hallmark of CA — one that has led us to where we are today and will drive our future growth.

As we address the next generation of computing needs, we are delivering solutions based on open standards and high quality. Each of our solutions is built upon our core technologies and maintains our ability to provide security, reliability, availability and performance.

Wireless

Wireless technology is permeating the corporate landscape. Employees want, and need, access to information anytime, anywhere to be effective. More and more companies are beginning to implement wireless networks as laptops, personal digital assistants (PDAs) and other wireless devices are becoming a necessary part of doing business. Organizations investing in wireless technology can realize significant returns by providing instant access to vital information.

But for those managing wireless infrastructures, the challenges can be daunting. IT teams must manage, secure and provide information access throughout a wireless infrastructure as if it were a wired one. They need the same kind of world-class solutions that work today and can be scaled to manage the complexities that accompany this technology for years to come.

Through our Unicenter family of solutions, CA delivers comprehensive management of both wireless network infrastructures and mobile devices in much the same way it does for wired infrastructures. Unicenter solutions help customers derive tangible returns on their software investments through integrated enterprise management, secure wireless networks, increased productivity and higher service levels.

CA's other brands — such as *e*Trust, CleverPath and Advantage — provide authentication access, the ability to personalize content to any mobile device and advanced development tools to build and deploy wireless applications.

"Smart companies find ways to complement and extend their existing relationships. And that's exactly what CA has done. Through a series of partnerships with some of the leading manufacturers of devices, carriers, networks and operators, they provide an infrastructure to provide a complete solution to our customers … CA knows what they're doing."

The Honorable Alfonse M. D'Amato
Managing Director
Park Strategies LLC

"Customers need solutions that work today."

Web Services

Web Services are also among the industry's hottest technologies. Industry expert Gartner predicts that by 2005, Web Services will be integral to new application solutions for Fortune 2000 companies.

Companies use Web Services to enable applications to communicate and share data over the Internet, regardless of the operating system. Our solutions enable seamless integration among customers, employees and partners through the Internet. In fact, CA is the leader in providing a set of solutions that manages, secures, protects and integrates Web Services. CA plans to deliver access through Web Services to the capabilities of all our solutions in both Java and .NET environments.

"With its innovative technology, competitive business model and commitment to first-class customer service, Computer Associates continues to demonstrate its industry leadership. The Board of Directors is equally committed to working with CA to deliver consistent, long-lasting shareholder value."

Lewis S. Ranieri
Chairman
Hyperion Partners

“Innovative solutions drive CA’s growth.”

Most recently, we introduced CleverPath™ Portal, a Web Services-based solution that allows organizations to efficiently and securely create high-value portals that deliver customized information and services to customers, employees, suppliers and partners. According to recent performance tests, CleverPath Portal can support more than 2.4 million users. CA’s CleverPath Portal is the only product to take Web Services and deliver information automatically to any web-enabled device. No other company can make this claim. By providing access to such specialized information, the CleverPath family of solutions helps companies make better-informed decisions.

“The Board of Directors at CA is committed to good corporate governance. And we intend to do the right thing for shareholders, for customers and for employees.”

Jay W. Lorsch
Louis E. Kirstein Professor of Human Relations
Harvard Business School

Intelligence

In 1996, CA was the first software vendor to deliver on the concept of distributed intelligence for infrastructure management. Two years later, we pioneered the application of neural networking technologies to predict network and system problems. Today, CA is the only vendor to provide both automated rules and adaptive pattern recognition intelligence solutions. These solutions provide customers with a clear competitive advantage.

Safe and Secure

While providing increased access to information, we also help companies maintain the integrity of their infrastructures. For example, CA is making it easier for companies to store and protect critical data. Our BrightStor family delivers storage without boundaries, with a wide range of solutions, from business continuity to storage resource management to legacy storage technologies. One of our newest products, BrightStor Portal, delivers a single point-of-management for multivendor storage across the work environment. We believe this is the industry’s most advanced solution for simplifying and centralizing the management of complex storage infrastructures.

We’re also the industry’s leading supplier of security solutions. CA has the technology and vision to help customers deal with their rapidly changing security challenges. The eTrust family delivers comprehensive security solutions in Identity Management, Access Management, Threat Management and Security Operations. As demand has increased for more security management, CA recently developed eTrust™ 20/20. This is a patent-pending security solution that delivers a new line of defense against potential information attacks, theft, corporate espionage and policy violations. It provides a unique visual insight into both physical and IT security events — empowering corporate security managers to pinpoint the most subtle security indicators in the largest, most complex work environments.

“CA’s approach to open standards underscores a real commitment to customers. The Company is committed to helping customers integrate and manage whatever technology they choose to use. With today’s rapid technology evolutions, that’s a powerful way to deliver value.”

Russell M. Artzt
Executive Vice President
Computer Associates International, Inc.

Valuing Our Customers

We are committed to earning our customers' respect as a valued partner. We know this takes hard work. Our employees can attest to the time and effort that go into this dedicated approach. But we believe it is critical to our success. From implementations to technical support to ongoing customer education, CA offers a wealth of resources for every customer.

We have more than 650 noncommissioned CA employees dedicated to customer satisfaction. CA's Customer Relationship Managers (CRMs) help customers get what they need from CA quickly and easily, and ensure that we understand our customers' businesses. Through regular contact, updates, customized partnership summaries and other metrics, the CRMs ensure that all CA efforts support our customers' goals.

At Your Service

We work hard to deliver some of the world's most integrated, highest-quality software. We also work hard to ensure customers know how to get the most from their investments in CA software as well as their relationships with us. To this end, our CA Services℠ offer comprehensive education programs, unparalleled technical support and professional services.

- Education: The more customers know about their CA products' features and functionality, the more those products can contribute to success. To help, we offer education courses at CA regional centers, on customer sites and online.

- Technical Support: Fast, effective technical support is critical to our customers' success. We operate more than 40 technical support centers around the clock in more than 20 countries and in numerous languages. Our goal is to provide the best possible service, whether it's in person, by phone or online. This year, we launched our web-based, self-help support system SupportConnect℠ as another way to make doing business with CA easy and efficient for our customers.

- Professional Services: CA offers fee-based services providing assessments, installation and implementation services for CA technology worldwide. Our professional services team works directly with our research and development and technical support teams to offer a current understanding of the latest industry trends and product capabilities.

"More than 95% of the Fortune 500 rely on CA technology, which means CA is managing the infrastructures of companies worldwide. With its mission-critical technology, CA serves as the backbone of business and has a tremendous impact on the way business is conducted throughout the world."

Roel Pieper
Managing Partner
Favonius Ventures

"A vision that benefits customers is vital."

The Value of Technical Leadership

Innovation and leadership are easy to aspire to, but can be difficult to deliver. At CA, we have a history of delivering innovation and leadership that has changed the way businesses operate. We believe that CA is a true technological and business visionary which has been leading the industry for the past 26 years and delivering value along the way.

Over the years, we have successfully identified, acted upon and created trends that have shaped the software industry as well as corporate America. We were one of the first companies to transition from being mainframe-centric to enabling distributed computing. We were instrumental in driving the industry to vendor-neutral platforms that enabled integrated solutions.

"CA has done a remarkable job furthering education in the community. The Company continues to develop new and innovative ways of using technology to enrich our lives. From joint technology programs for students to technology incubator programs, CA gives new meaning to the term social responsibility."

Shirley Strum Kenny
President
State University of New York at Stony Brook

“CA has the courage to deliver.”

Customers find CA’s support for a broad range of technologies and open standards to be of tremendous value. We believe our most recent move to a dramatically different but flexible way of doing business through our business model will drive benefits for years to come. These are just a few examples of CA’s ability to identify and take action.

Being a leader is a tough responsibility. It takes a strong vision, innovative technology and the courage to deliver. We owe it to our customers, our employees, our partners and our shareholders to take it seriously. We are committed to keeping our visionary leadership alive.

“One of the hallmarks of a true industry leader is vision. Companies like CA are successful because they stay ahead of trends and understand how to translate technological evolution into real solutions customers need.”

Willem F. P. de Vogel
Managing Partner
Three Cities Research, Inc.

Senior Officers

Russell M. Artzt
Executive Vice President

Tommy Bennett
Senior Vice President

Nancy Bhagat
Senior Vice President

Mark Combs
Senior Vice President

Yogesh Gupta
Senior Vice President and CTO

Sanjay Kumar
President and Chief Executive Officer

Kevin Long
Senior Vice President

Michael A. McElroy
Senior Vice President and Secretary

Una O’Neill
Senior Vice President

Gary Quinn
Executive Vice President

Stephen Richards
Executive Vice President

Gary Starkey
Senior Vice President

Mary Stravinskas
Vice President and Treasurer

Charles B. Wang
Founder and Chairman

Stephen M. Woghin
Senior Vice President and General Counsel

Wai Wong
Senior Vice President

Frank Yang
Senior Vice President

Ira H. Zar
Executive Vice President and CFO

Board of Directors

Russell M. Artzt
Executive Vice President
Computer Associates International, Inc.

The Honorable Alfonse M. D’Amato
Managing Director
Park Strategies LLC

Willem F. P. de Vogel
Managing Partner
Three Cities Research, Inc.

Richard A. Grasso
Chairman and Chief Executive Officer
New York Stock Exchange

Shirley Strum Kenny
President
State University of New York at Stony Brook

Sanjay Kumar
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Jay W. Lorsch
Louis E. Kirstein Professor of Human Relations
Harvard Business School

Roel Pieper
Managing Partner
Favonius Ventures

Lewis S. Ranieri
Chairman
Hyperion Partners

Walter P. Schuetze
CPA
Former Chief Accountant —
Securities and Exchange Commission

Charles B. Wang
Founder and Chairman
Computer Associates International, Inc.

Financial Review Fiscal 2002

Report of Management

Management is responsible for the preparation, integrity and objectivity of the financial information presented in this Annual Report. The accompanying consolidated financial statements have been prepared from accounting records which management believes fairly and accurately reflect the operations and financial positions of the Company. These statements have been prepared in accordance with generally accepted accounting principles and of necessity include some amounts that are based on management's best estimates and judgments. Management has established a system of internal controls to provide reasonable assurance that assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately on the Company's books and records.

The Company's Internal Audit Program provides for ongoing evaluation of the adequacy, effectiveness and adherence to management's established policies and procedures. The Board of Directors exercises its responsibility for these financial statements through its Audit Committee, consisting entirely of non-management Directors. The independent auditors and the internal auditors have full and free access to the Audit Committee. The Company has distributed to key employees its policies for conducting business affairs in an ethical and professional manner.

The current year financial statements of the Company have been audited by KPMG LLP, independent auditors. Their accompanying report is based on an audit conducted in accordance with generally accepted auditing standards, including consideration of the internal control structure and financial reporting matters, for purposes of designing their audit approach.

Sanjay Kumar
President and
Chief Executive Officer
Computer Associates International, Inc.

Ira H. Zar
Executive Vice President and
Chief Financial Officer
Computer Associates International, Inc.

May 10, 2002

Report of Independent Auditors

The Board of Directors and Stockholders
Computer Associates International, Inc.

We have audited the accompanying consolidated balance sheets of Computer Associates International, Inc. and subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended March 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Computer Associates International, Inc. and subsidiaries at March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

New York, New York
May 10, 2002

Management's Discussion and Analysis of Financial Condition and Results of Operations

This Annual Report contains certain forward-looking statements and information relating to the Company that are based on the beliefs and assumptions made by the Company's management as well as information currently available to management. When used in this document, the words "anticipate," "believe," "estimate," "expect" and similar expressions, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. These risks are described in documents we file with the Securities and Exchange Commission, including our most recent reports on Form 10-K, Form 8-K, Form 10-Q and amendments thereto. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. The Company does not intend to update these forward-looking statements except as may be required by law.

Critical Accounting Policies and Business Practices

Note 1 to the Consolidated Financial Statements contains a summary of the significant accounting policies that are used by the Company. Many of these accounting policies require the use of estimates. Critical accounting estimates, which are both important to the portrayal of the Company's financial condition and which require complex, subjective judgments, are as follows:

Basis of Revenue Recognition

In October 2000, the Company announced a shift to its new business model, offering customers the flexibility and freedom to adapt to rapidly changing enterprise requirements while reducing the risks and costs associated with traditional software licensing models. Under the new business model, customers can determine the length and dollar value of their software licenses. The new business model provides customers with the flexibility to subscribe to software under month-to-month licenses or choose cost certainty by committing to a longer-term arrangement. The new business model also permits customers to vary their software mix as their business and technology needs change, including the right to receive unspecified future software within designated product lines. The Company believes the new business model improves the visibility and predictability of the Company's revenue streams by recognizing license revenue on a ratable basis rather than on an up-front one-time basis as the Company did prior to the quarter ended December 31, 2000.

The terms of these new arrangements are structured such that product revenue is generally recognized ratably over the term of the license on a monthly basis, which has impacted the Company's reported revenue on a Generally Accepted Accounting Principles ("GAAP") basis. The portion of the license arrangement that is not recognized as revenue creates deferred subscription revenue which will be recognized as revenue over the remaining term of the arrangement.

Prior to the introduction of the new business model, maintenance revenue was bundled for a portion of the term of the license arrangement. Under these arrangements, the maintenance, which was based on optional annual renewal rates stated in the arrangement, initially was deferred and subsequently amortized into revenue over the initial contractual term of the arrangement. Maintenance renewals have been recognized ratably over the term of the renewal arrangement. For arrangements executed under the new business model, maintenance is bundled for the entire term of the license arrangement. Under these arrangements, maintenance revenue is recognized ratably as subscription revenue over the term of the license arrangement, along with the license fee, commencing upon delivery of the currently available software products.

Financing fees result from the initial discounting to present value of product sales with extended payment terms under the Company's old business model and the subsequent increase of receivables to the amount due and payable by customers. Financing fees will continue to decrease as they are amortized over the arrangement term.

Accounts Receivable

As detailed in the table included in Note 5 to the Consolidated Financial Statements, at March 31, 2002, net accounts receivable, after accounting for unearned revenue and the allowance for doubtful accounts, is $3.391 billion.

The Company maintains an allowance for doubtful accounts relating to the portion of the accounts receivable that has been recognized as revenue, which the Company does not expect to collect. The Company performs a quarterly analysis to determine the appropriate allowance for doubtful accounts. This analysis includes various analytical procedures and a review of factors, including specific individual balances selected from a cross-section of the accounts that comprise total accounts receivable, the Company's history of collections of long-term contracts, as well as the overall economic environment. The Company's ability to collect its accounts receivable is dependent upon a number of factors including the performance of its products, customer satisfaction with ongoing services, financial condition of customers and general economic conditions. Changes to these factors will influence the amount of the required allowance.

The Company expects the allowance for doubtful accounts to continue to decline as net installment accounts receivable under the old business model are billed and collected over the remaining life.

Deferred Tax Assets

The Company has recognized for financial statement purposes a portion of the tax benefits connected with losses related to operations. This recognition assumes that the Company will be able to generate sufficient future taxable income so that the carryforward of these losses will be realized. The factors that the Company considers in assessing the likelihood of realization include the forecast of future taxable income and available tax-planning strategies that could be implemented to realize the deferred tax assets. Deferred tax assets are primarily made up of acquisition liabilities, such as duplicate facility, employee severance and other costs, and foreign net operating losses ("NOLs"). The NOLs generally expire between 2003 and 2013. A valuation allowance was established in the year ended March 31, 2002 for certain foreign deferred tax assets the Company believes may not be realized. Adjustments to the valuation allowance may be made in the future if it is determined that the amount of NOLs realized is greater or less than the amount recorded.

Valuation of Intangibles

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired by the Company in purchase business combinations. The Company has historically amortized goodwill using the straight-line method based on an estimated useful life of 10 to 20 years. In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives not be amortized, but rather be tested at least annually for impairment. The Company adopted SFAS 142 effective April 1, 2002. Upon adoption, the Company stopped the amortization of goodwill with an estimated net carrying value of approximately $4.483 billion at March 31, 2002. The Company is having an independent valuation analysis completed and does not anticipate any material transitional impairment; however, future impairment reviews may result in periodic write-downs as a result of changes in the valuation analysis. The valuation is based upon the Company's forecast of operating results for the entity that has recorded goodwill, as well as estimates of fair value of the entity and its tangible and intangible assets.

The carrying values of purchased software products and other intangible assets are reviewed on a regular basis for the existence of facts or circumstances, both internally and externally, that may suggest impairment, which includes an assessment of the net realizable value of capitalized software costs as of the balance sheet date. If an impairment is determined to exist, any related impairment loss is calculated based on net realizable value for capitalized software and fair value for all other intangibles.

Results of Operations

The Company distributes and markets its software solutions directly to the end user as well as to distribution partners, resellers or VARs. The Company derives revenues from the following sources: license fees — the licensing of the Company's solutions on a right-to-use basis; maintenance fees — the providing of post-contract customer support and enhancements; and service fees — the providing of professional services such as implementation, consulting and education services. The timing and amount of fees recognized as revenue during a period are determined by the nature of the contractual provisions, such as the term of the arrangement, included in the arrangements with customers. In fiscal year 2002, the average contract life approximated three-and-a-half years, with a Company goal of further reducing it to three years.

Prior to December 2000, the Company's software license arrangements included contractual provisions that resulted in the recognition of license fee revenue up-front, upon delivery of the attributable software products, assuming the three other prerequisite criteria to recognize revenue were met pursuant to the provisions of AICPA Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition," as amended by SOP No. 98-4 and SOP No. 98-9 — the arrangement fee was fixed or determinable, collectibility of the fee was probable and persuasive evidence of an arrangement existed. Beginning in December 2000, the Company's software license arrangements have included contractual provisions that, among other things, allow the customer to receive unspecified future software products within designated product lines. Under these arrangements, the Company begins to recognize revenue ratably over the term of the license arrangement after meeting the four revenue recognition criteria as noted above. As was the case prior to December 2000, maintenance is recognized ratably over the contract term and professional service fees are generally recognized as the services are performed. The new business model improves the visibility of the Company's revenue streams since license fees are recognized ratably, rather than on an up-front one-time basis. To enhance comparability, during the transition to the new business model, the Company has supplemented the MD&A with pro forma financial information for the current and prior fiscal year.

Fiscal Year 2002

Total revenue for the fiscal year ended March 31, 2002 decreased 29%, or $1.226 billion, over fiscal year 2001. Excluding an approximately $90 million decline attributable to unfavorable changes in foreign exchange rate movements with the U.S. dollar, revenue decreased $1.136 billion to $3.054 billion. The decrease was primarily due to the Company's transition to the new business model during the third quarter of fiscal year 2001, which resulted in a decrease in up-front license fees compared to the prior year period, partially offset by new subscription revenue. In addition, apprehension toward capital spending by the Company's existing and potential customers due to weaker conditions in the overall economy and the technology industry also impacted fiscal year 2002 revenue. The Company does not expect an improvement in capital spending by customers until there is an improvement in economic and industry conditions. During fiscal year 2001, approximately $1.429 billion was recognized as revenue up-front at contract signing under the Company's old business model and was included in the "Software fees and other" line item on the accompanying Consolidated Statements of Operations in fiscal year 2001. The total revenue decrease is also attributable to a decline in professional services revenue of $222 million. Although the transition to the new business model and weaker economic conditions contributed to the revenue decrease, quantification of the impact these components had on such decrease is not readily determinable.

The Company's new business model will improve the visibility of the Company's revenue streams since license fees will be recognized ratably, rather than on an up-front one-time basis. To enhance comparability at the outset of the transition to the new business model, the Company has supplemented the MD&A with pro forma financial information for the current and prior fiscal year.

For the fiscal year ended March 31, 2002, subscription revenue totaled $827 million, an increase of $768 million over the prior fiscal year. These fees represent the ratable revenue recognized on contracts executed under the new business model. The increase is a result of the execution of these types of contracts for all of fiscal year 2002, whereas these contracts were only executed in the third and fourth quarters of fiscal year 2001.

Software fees and other decreased $1.449 billion, or 77%, from the comparable prior year period due to the transition to license arrangements under the new business model, in which revenue is recognized ratably and is included as "Subscription revenue" on the accompanying Consolidated Statements of Operations, compared with recognizing revenue up-front at contract signing as was the case through the beginning of the third quarter of fiscal year 2001. The remaining items that comprise software fees and other are primarily revenue associated with sales to distributors, resellers and VARs, which are generally recognized when the reseller, distributor or VAR sells the software products to its customers.

In fiscal year 2002, maintenance revenue decreased 12%, or $129 million, from the prior year. The decrease is primarily attributable to agreements executed under the new business model, which include maintenance revenue that is bundled with license revenue and, together, the maintenance and license revenue are recognized ratably over the term of the arrangement and included as a component of subscription revenue. Maintenance revenue will continue to decrease as deferred maintenance revenue under the Company's old business model is amortized over the contract term, partially offset by new maintenance revenue earned from customers who elect to continue to receive optional maintenance at the expiration of the original contract term of their agreements.

For the fiscal year ended March 31, 2002, financing fees decreased 30%, or $194 million, from the prior year. Financing fees result from the initial discounting to present value of product sales with extended payment terms under the Company's old business model and the subsequent increase of receivables to the amount due and payable by customers. The decrease was due to the discontinuance of the offering of contracts which were recorded under the old business model. Financing fees will continue to decrease as they are amortized over the contract life.

In fiscal year 2002, professional services revenue decreased 42%, or $222 million, from the prior year, primarily as a result of the Company's shift in focus to professional services engagements that are centered around the Company's products. The decrease is also attributable to the Company's divestiture in October 2000 of Sterling's Federal Systems Group ("FSG"), a provider of professional services to governmental agencies, which contributed approximately $94 million to professional services revenue in fiscal year 2001.

Revenue in the United States represented 62% of overall revenue for fiscal year 2002, as compared to 65% for fiscal year 2001. Consistent with and for the same reasons as the overall decrease in revenue, international revenue decreased $343 million, or 23%, in fiscal year 2002 as compared with fiscal year 2001.

Price changes did not have a material impact in fiscal year 2002 or in fiscal year 2001.

Cost of professional services consists primarily of personnel-related costs to provide professional services and training to customers. Cost of professional services decreased $180 million, or 39%, due primarily to a reduction in professional services revenue and related personnel from fiscal year 2001 to fiscal year 2002, including the divestiture of FSG, which contributed approximately $84 million of such expenses in the prior year.

In fiscal year 2002, selling, general and administrative ("SG&A") expenses decreased 16%, or $330 million, from the prior year to $1.790 billion. The decrease was largely attributable to the Company's emphasis on overall cost control measures, including personnel-related costs such as reduced travel expenses in connection with a reduction in the Company's head count of approximately 3,000 employees over the prior fiscal year period. Excluding a charge related to an impairment of assets sold in April 2002 of approximately $59 million in fiscal year 2002 and a charge associated with the bankruptcy of Inacom Corporation of approximately $31 million in fiscal year 2001, SG&A decreased 17%, or $358 million.

Product development and enhancement expenses consist primarily of personnel costs, which decreased $17 million, or 2%, for fiscal year 2002 compared with the prior fiscal year. The decrease was a result of general cost containment primarily related to personnel costs. The Company continued its focus on product development and enhancements, with an emphasis on adapting and enhancing products within the Company's six focus areas, particularly for the distributed processing and IBM's z/OS environments, as well as a broadening of the Company's enterprise product offerings.

Commissions and royalty expense decreased $33 million, or 11%, over the prior fiscal year. Commissions and royalty expense as a percentage of revenue increased due to the lower revenue achievement associated with the Company's transition to the new business model without an associated change in the overall sales compensation. The decrease in commissions and royalty expense was principally the result of a decline in contract bookings associated with the weaker economic environment for information technology spending.

Depreciation and amortization of goodwill and other intangibles expense in fiscal year 2002 decreased $9 million over the prior year. Amortization of capitalized software costs in fiscal year 2002 decreased $5 million over the prior year. The decrease of depreciation and amortization of goodwill and capitalized software costs was a result of scheduled reductions in the amortization of intangible assets associated with past acquisitions. SFAS 142 will have the effect of substantially reducing the Company's amortization of goodwill and intangibles commencing April 1, 2002.

Net interest expense decreased $117 million compared with the prior year, consisting of a $58 million reduction due to a decrease in the average variable interest rate and a $59 million reduction due to a decrease in average debt outstanding.

The pre-tax loss of $1.385 billion for fiscal year 2002 exceeds the fiscal year 2001 loss by $719 million. Excluding the $59 million asset impairment charge, the pre-tax loss would have been $1.326 billion, compared with the pre-tax loss of $819 million in fiscal year 2001, excluding a special gain of $184 million related to the settlement of the 1995 Stock Plan litigation and a special charge of $31 million related to the bankruptcy filing of Inacom Corporation. Net loss for the year ended March 31, 2002 was $1.102 billion, compared to a net loss of $591 million for fiscal year 2001. Fiscal 2002 net loss, excluding the after-tax aforementioned impairment charge, was $1.053 billion, an increased loss of $366 million over the prior year's net loss, exclusive of the 2001 aforementioned special items. The Company's consolidated effective tax rate, excluding acquisition amortization, was 28.4% and 37.5% for the fiscal years ended March 31, 2002 and 2001, respectively.

Fiscal Year 2001

Total revenue for the fiscal year ended March 31, 2001 decreased 31%, or $1.904 billion, over fiscal year 2000. Excluding an approximately $140 million decline attributable to unfavorable changes in foreign exchange rate movements with the U.S. dollar, revenue decreased $1.764 billion to $4.330 billion. Total revenue was unfavorably impacted in the second half of the fiscal year due to the introduction of the new business model whereby license fee revenue for such arrangements is now recognized ratably over the contract term. Additionally, the Company experienced weakness in the first half of the fiscal year as a result of customers deferring purchases ahead of an IBM hardware cycle. Although weaker economic conditions and the transition to the new business model contributed to the revenue decrease, quantification of the impact these components had on such decrease is not readily determinable.

For the fiscal year ended March 31, 2001, subscription revenue totaled $59 million. These fees represent the ratable revenue recognized on contracts executed under the new business model. The remainder of the license and maintenance fees payable on such license arrangements will amortize into revenue over the respective license arrangement's term.

Software fees and other decreased $2.298 billion, or 55%, from the comparable prior year period due to the transition to license arrangements under the new business model. For the fiscal year ended March 31, 2001, the Company recorded $1.429 billion under the old business model. The remaining items that comprise software fees and other is primarily revenue associated with sales to distributors, resellers and VARs in which revenue is generally recognized when the reseller, distributor or VAR sells the software products to its customers.

In fiscal year 2001, maintenance revenue increased 24%, or $210 million, to $1.087 billion from the prior year primarily as a result of acquired companies' products, partially offset by a decrease associated with revenue recorded since the introduction of the new business model. Maintenance will continue to decrease as deferred maintenance under the old business model is amortized over the contract term.

For the fiscal year ended March 31, 2001, financing fees increased 21%, or $109 million, to $638 million from the prior year, as a result of an increase in installment-based licenses and the associated noncurrent receivables prior to the introduction of the new business model. Under the old business model, financing fees result from the initial discounting to present value of product sales with extended payment terms and the subsequent increase to receivables to the amount due and payable by customers. This accretion of financing fees on the unpaid receivables due in future years represents financing fees.

In fiscal year 2001, professional services increased 3%, or $16 million, to $525 million from the prior year, as a result of the acquisition of Sterling Software, Inc. ("Sterling") in March 2000, partially offset by the Company's refocusing of its service operations on engagements involving the Company's products. Such refocusing has unfavorably impacted professional services revenue. Reflecting the strategy to focus the professional services organization on the deployment of CA solutions, the Company divested FSG in the third quarter of fiscal year 2001.

Revenue in the United States represented 65% of overall revenue for fiscal year 2001, as compared to 66% for fiscal year 2000. Consistent with the overall decrease in revenue, international revenue decreased $594 million, or 29%, in fiscal year 2001 as compared with fiscal year 2000.

Price changes did not have a material impact in fiscal year 2001 or in fiscal year 2000.

Cost of professional services, which consists primarily of personnel-related costs to provide professional services and training to customers, increased $17 million, or 4%, which is similar to the increase in professional services revenue from fiscal year 2000 to fiscal year 2001.

In fiscal year 2001, SG&A, excluding the charge associated with the bankruptcy of Inacom Corporation of approximately $31 million, increased 48% from the prior year to $2.089 billion, exclusive of the charge of approximately $50 million in fiscal year 2000 associated with the write-off of the Company's investment in CHS Electronics, Inc. ("CHS"). The increase was largely attributable to the Company's higher fixed expense structure, principally the result of added personnel and related costs from the acquisition of Sterling, as well as increased spending on marketing associated with a new comprehensive advertising campaign and an increase in provision expense for accounts receivable as a result of the difficult economic climate.

Product development and enhancement expenses increased $127 million, or 22%, for fiscal year 2001 compared with the prior year. There was continued emphasis on adapting and enhancing products for the distributed processing environment as well as the broadening of the Company's enterprise product offerings, and additional expenses related to development efforts of products obtained through the acquisition of Sterling.

Commissions and royalty expense increased $8 million, or 3%, over the prior year. Commissions and royalty expense as a percentage of revenue increased due to the lower revenue achievement associated with the Company's transition to the new business model without an associated change in the sales compensation structure which rewards sales personnel on the total arrangement.

Depreciation and amortization of goodwill and other intangibles expense in fiscal year 2001 increased $295 million over the prior year. Amortization of capitalized software costs in fiscal year 2001 increased $221 million over the prior year. The increase in depreciation and both amortization of goodwill and capitalized software costs was primarily due to the additional amortization of the cost of purchased intangibles associated with Sterling, marginally offset by the scheduled reductions in the amortization of costs associated with past acquisitions.

Net interest expense increased $5 million compared with the prior year. The increase consisted of a $12 million increase due to an increase in the average variable interest rate and a $7 million decrease due to a decrease in average debt outstanding.

The pre-tax loss of $666 million for fiscal year 2001 represents a decrease of $2.256 billion, over fiscal year 2000. Excluding a special gain of $184 million related to the settlement of the 1995 Stock Plan litigation and a special charge of $31 million related to the bankruptcy filing of Inacom Corporation, the pre-tax loss would have been $819 million, compared with pre-tax income of $2.437 billion in fiscal year 2000, excluding special charges of $645 million and $150 million for in-process research and development ("IPR&D") relating to the acquisitions of PLATINUM *technology* International, *inc.* ("PLATINUM") and Sterling, respectively, and approximately $50 million related to the CHS write-off. Net loss for the year ended March 31, 2001 was $591 million, a decrease of $1.287 billion over fiscal year 2000. Fiscal 2001 net loss, excluding the after-tax aforementioned special items, was $687 million, a decrease of $2.210 billion over the prior year's net income, exclusive of the aforementioned special charges. The Company's consolidated effective tax rate, excluding acquisition amortization and IPR&D charges, was 37.5% for both fiscal years 2001 and 2000.

Selected Quarterly Information

(in millions, except per share amounts)

2002 Quarterly Results	June 30	Sept. 30	Dec. 31	March 31[1]	Total
Revenue[3]	$ 712	$ 733	$ 747	$ 772	$ 2,964
Percent of annual revenue	24%	25%	25%	26%	100%
Net loss	$ (342)	$ (291)	$ (231)	$ (238)	$(1,102)
— Basic loss per share	(0.59)	(0.50)	(0.40)	(0.41)	(1.91)
— Diluted loss per share	(0.59)	(0.50)	(0.40)	(0.41)	(1.91)

2001 Quarterly Results	June 30[2]	Sept. 30	Dec. 31	March 31	Total
Revenue[3]	$1,134	$1,544	$ 782	$ 730	$ 4,190
Percent of annual revenue	27%	37%	19%	17%	100%
Net income (loss)	$ 23	$ 138	$ (342)	$ (410)	$ (591)
— Basic earnings (loss) per share	0.04	0.24	(0.59)	(0.71)	(1.02)
— Diluted earnings (loss) per share	0.04	0.23	(0.59)	(0.71)	(1.02)

(1) Includes an after-tax charge of $49 million related to an impairment of assets sold in April 2002.
(2) Includes an after-tax charge of $19 million related to the bankruptcy of Inacom Corporation and an after-tax gain of $115 million related to the 1995 Stock Plan.
(3) Adjusted to reflect prior period reclassifications. See Note 1 of the Consolidated Financial Statements for additional information.

Pro Forma Results of Operations

To provide comparable financial results, management's discussion and analysis is supplemented with separate pro forma financial information. This pro forma information is presented in order to give effect to the purchase of PLATINUM and Sterling under the assumption that the Company, PLATINUM and Sterling operated under the new business model since their inception. Pro forma operating results are calculated by adjusting prior period revenue recorded under the old business model to revenue recognized on a ratable basis under the new business model, exclusive of acquisition amortization and special items. Reconciliations of GAAP results to pro forma operating results are provided below. While these results may not be indicative of operations had these acquisitions actually occurred on that date and had the Company historically been operating under the new business model, the Company believes they provide a basis for comparison at the outset of the transition to the new business model. Professional services revenue and total expenses are identical under both the new and old business models; therefore, management's discussion and analysis of these captions has not been repeated under the pro forma results of operations. The following pro forma measures may not be comparable to similarly titled measures reported by other companies.

	Fiscal Year Ended March 31, 2002			2001		
(in millions, except per share amounts)	GAAP Results	Adjustments	Pro Forma Operating Results	GAAP Results	Adjustments	Pro Forma Operating Results
Revenue[8]	$ 2,964	$ 2,837[1]	$5,801	$4,190	$1,368[2]	$5,558
Total expenses[8]	4,349	(1,015)[3]	3,334	4,856	(820)[4]	4,036
Pretax (loss) income	(1,385)	3,852[5]	2,467	(666)	2,188[5]	1,522
Income tax (benefit) provision	(283)	1,208[6]	925	(75)	646[6]	571
Net loss	$(1,102)		N/A	$ (591)		N/A
Net operating income	N/A		$1,542	N/A		$ 951
Diluted LPS	$ (1.91)		N/A	$ (1.02)		N/A
Shares used	577		N/A	582		N/A
Diluted operating EPS	N/A		$ 2.61	N/A		$ 1.61
Shares used	577	14[7]	591	582	10[7]	592

(1) Represents amortization of revenue recognized at contract signing from direct product sales in prior fiscal years for CA ($2,513), Sterling ($161) and PLATINUM ($163) as if revenue had been ratably recognized since their inception.
(2) Represents amortization of revenue recognized at contract signing from direct product sales in prior fiscal years for CA ($2,317), Sterling ($228) and PLATINUM ($252) as if revenue had been ratably recognized since their inception, offset by revenue recognized up-front ($1,429) under the old business model.
(3) Represents the elimination of acquisition amortization ($956) and a charge associated with the impairment of assets for sale ($59).
(4) Represents the elimination of acquisition amortization ($973), a gain associated with the 1995 Stock Plan ($184) and a charge related to the Inacom bankruptcy ($31).
(5) Represents the effect on pre-tax loss resulting from the adjustments to revenue and expenses reflected in footnotes (1), (2), (3) and (4).
(6) Represents the tax effect of adjustments. The assumed effective tax rate approximated 37.5%.
(7) Represents the inclusion of common stock equivalents since they are no longer antidilutive.
(8) Prior period adjusted to conform with current period presentation. See Note 1 of the Consolidated Financial Statements for additional information.

Total pro forma revenue for the fiscal year ended March 31, 2002 was $5.801 billion, an increase of 4%, or $243 million, over the prior year pro forma revenue of $5.558 billion. The increase was attributable to the ratable recognition of revenue on contracts transacted during the prior fiscal year, partially offset by a reduction in professional services revenue ($222 million), which was primarily the result of the divestiture of FSG in the third quarter of fiscal year 2001, which generated $94 million of revenue in that fiscal year, and the Company's decision to reduce professional services associated with non-CA products. North America and international pro forma revenue represented 64% and 36%, respectively, of overall pro forma revenue in both fiscal years 2002 and 2001. The international pro forma revenue was unfavorably impacted by the effect of exchange rates on the U.S. dollar versus foreign currencies.

On a pro forma basis, pre-tax income excluding acquisition amortization and special charges was $2.467 billion for fiscal year 2002, an increase of 62%, or $945 million, over the prior fiscal year's pre-tax income of $1.522 billion, exclusive of acquisition amortization and special items. Pro forma net income, excluding acquisition amortization and special items, was $1.542 billion for the fiscal year ended March 31, 2002, an increase of $591 million, or 62%, over fiscal year 2001. The increase was largely attributable to the Company's emphasis on overall cost control measures related to a reduction in the Company's head count of approximately 3,000 over the prior fiscal year. The Company's consolidated annual effective tax rate, excluding acquisition amortization and special items, was assumed to be 37.5% for both fiscal years 2002 and 2001.

In-Process Research and Development

In the fourth quarter of fiscal year 2000, the Company acquired Sterling in a stock-for-stock exchange valued at approximately $4.1 billion. In the first quarter of fiscal year 2000, the Company acquired PLATINUM for approximately $4.3 billion in cash and assumed liabilities. Acquired in-process research and development ("IPR&D") charges relate to acquisitions of software companies accounted for under the purchase method, in which a portion of the purchase price is allocated to acquired in-process technology and is expensed immediately since the technological feasibility of the research and development projects has not yet been achieved and is believed to have no alternative future use. Independent valuations of Sterling and PLATINUM, using the "Income Approach," were performed and used as an aid in determining the fair value of the identifiable intangible assets and in allocating the purchase price among the acquired assets, including the portion of the purchase price attributed to IPR&D, which was $150 million and $645 million for Sterling and PLATINUM, respectively. This approach focuses on the income-producing capability of the asset, which was determined through review of data provided by both the acquired companies and independent sources and through analysis of relevant market sizes, growth factors and expected trends in technology. The steps followed in applying this approach included estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such projects and discounting the net cash flows back to their present value using a rate of return commensurate with the relative risk levels.

The ongoing development projects at Sterling at the time of the purchase were composed primarily of application development and information management, business intelligence, network management and storage management tools and solutions. The acquired projects included add-on features, tools and next-generation versions of COOL, VISION™, EUREKA™, SAMS™ and SOLVE® product families. At the time of acquisition, it was estimated that, on average, 68% of the development effort had been completed and the remaining development effort would take approximately 14 months to complete, with a cost of approximately $9 million. Approximately $2 million and $7 million were incurred during the years ended March 31, 2002 and 2001, respectively, on the Sterling-related projects and no additional amounts are expected to be incurred relative to these projects. Products from each of the aforementioned projects are currently commercially available under the Sterling product family or the Company's rebranded product names.

The ongoing development projects at PLATINUM at the time of the purchase were composed primarily of application development, database and enterprise management tools and data warehousing solutions. The acquired projects included add-on features, tools and next-generation versions of DB2 Solutions, ProVision™, Security, Advantage™ application development, end-to-end data warehousing and Internet infrastructure product families. At the time of acquisition, it was estimated that, on average, 68% of the development effort had been completed and the remaining development effort would take approximately 12 months to complete, with a cost of approximately $41 million. Approximately $2 million, $19 million and $16 million were incurred during the years ended March 31, 2002, 2001 and 2000, respectively, on the PLATINUM-related projects and no additional amounts are expected to be incurred relative to these projects. Products from each of the aforementioned projects are currently commercially available under the PLATINUM product family or the Company's rebranded product names.

In order for the Company to succeed in the highly competitive and rapidly changing marketplace in which it operates, it has been the Company's philosophy to continue to develop, as well as integrate, acquired projects into its solutions. The Company is committed to both the Sterling and PLATINUM product lines and continues to invest in the development, enhancement and integration of the acquired projects. In addition, the Company does not specifically track revenue generated from completed IPR&D projects subsequent to the closing and integration of acquisitions.

If these projects do not continue to be successfully developed, supported and marketed, the revenue and profitability of the Company may be adversely affected in future periods. Additionally, the value of other intangible assets acquired may become impaired. Results will also be subject to uncertain market events and risks that are beyond the Company's control, such as trends in technology, government regulations, market size and growth, and product introduction by competitors. Management believes that the assumptions used in the purchased IPR&D valuation reasonably estimate the future benefits. There can be no assurances that in future periods actual results will not deviate from current estimates.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities totaled $1.180 billion at March 31, 2002, an increase of $330 million from the March 31, 2001 balance of $850 million. The Company made net debt repayments of over $580 million during fiscal year 2002, using cash on hand and cash from operations to repay over $1.240 billion in debt, offset by $660 million in Convertible Senior Notes issued in March 2002. The Company intends to use the proceeds from the Convertible Senior Notes issuance to further repay debt in fiscal year 2003. Additionally, the Company repurchased approximately $95 million in treasury stock in fiscal year 2002. Cash generated from operations for fiscal year 2002 was $1.251 billion, a decrease of $132 million from the prior year's cash from operations of $1.383 billion. Cash from operations was unfavorably impacted this fiscal year compared with the prior fiscal year by a reduction in customer payments at contract signing of the entire multiyear arrangement.

The Company's bank credit facilities consist of a $1 billion four-year revolving credit facility and a $2 billion four-year term loan. As of March 31, 2002, $600 million remained outstanding under the four-year term loan and $600 million was drawn under the $1 billion four-year revolver. The drawings under the revolver were used to repay $600 million of the term loan during fiscal year 2002. The interest rates on such debt are determined based on a ratings grid, which applies a margin to the prevailing London InterBank Offered Rate ("LIBOR"). In April 2002, the Company repaid $250 million of the four-year revolving credit facility that was due in the first quarter of fiscal year 2004.

During the year, the Company repaid a 75 million British Pound Sterling denominated 364-day facility. In addition, the Company has a $1 billion Commercial Paper ("CP") program. The four-year revolver supports the CP program as a backstop facility. As of March 31, 2002, $82 million was outstanding under the CP program.

The Company also utilizes other financial markets in order to maintain its broad sources of liquidity. In fiscal year 1999, $1.750 billion of unsecured Senior Notes were issued in a transaction pursuant to Rule 144A of the Securities Act of 1933. Amounts borrowed, rates and maturities for each issue are $575 million at 6.25% due April 15, 2003, $825 million at 6.375% due April 15, 2005 and $350 million at 6.5% due April 15, 2008. As of March 31, 2002, $128 million was outstanding under the Company's 6.77% Senior Notes. These notes call for annual repayment of $64 million each April until final maturity in April 2003.

In fiscal year 2002, $660 million of unsecured 5% Convertible Senior Notes, due March 15, 2007, were issued in a transaction pursuant to Rule 144A. The Notes are senior unsecured indebtedness and rank equally with all existing senior unsecured indebtedness. The holders of the Notes may convert all or some of their Notes at any time prior to or on March 14, 2007, unless previously redeemed or repurchased, at a conversion price of $24.34 per share. The initial conversion rate is 41.0846 shares per $1,000 principal amount of the Notes and is subject to adjustment under certain circumstances. The Notes may not be redeemed by the Company during the first three years that they are outstanding and may be called thereafter until maturity at the Company's option at declining premiums to par. The Company intends to file a registration statement with respect to the Notes and the common stock issuable upon conversion of the Notes. Concurrently with the issuance of the Notes, the Company entered into a call spread repurchase option transaction ("Call Spread"). The option purchase price of the Call Spread was $95 million. The entire purchase price of $95 million has been charged to Stockholders' Equity. Under the terms of the Call Spread, the Company has the option to purchase outstanding shares equivalent to the number of shares that may be issued if all Notes are converted into shares (27.1159 million shares), thereby mitigating dilution to shareholders. The Call Spread can be exercised at the three-year anniversary of the issuance of the Notes, at an exercise price of $24.83 per share. To limit the cost of the Call Spread, an upper limit of $36.60 per share has been set such that if the price of the common stock is above that limit at the time of exercise, the number of shares eligible to be purchased will be proportionately reduced based on the amount the common share price exceeds $36.60 at time of exercise. The Call Spread is intended to give the Company the option at the three-year anniversary to eliminate dilution as a result of the Notes being converted to common shares up to the $36.60 price per common share and significantly mitigate dilution if the share price exceeds $36.60 at that time. The Call Spread was provided by two leading banking institutions.

Unsecured and uncommitted multicurrency lines of credit are available to meet any short-term working capital needs for subsidiaries operating outside the United States. These lines total $51 million, of which $15 million was drawn as of March 31, 2002.

Debt ratings for the Company's senior unsecured notes and its bank credit facilities are BBB+ and Baa2 from Standard & Poor's and Moody's Investors Service, respectively. The Company's CP program is rated A-2 from Standard & Poor's and P-2 from Moody's.

Peak borrowings under all debt facilities during fiscal year 2002 totaled approximately $4.445 billion. The weighted-average interest rate for all debt facilities during fiscal year 2002 was 5.95%.

As of March 31, 2002, the cumulative number of shares purchased under the Company's various open market Common Stock repurchase programs was 170 million, including approximately 3 million shares purchased in fiscal year 2002. The remaining number of shares authorized for repurchase is approximately 30 million.

Capital resource requirements as of March 31, 2002 consisted of lease obligations for office space, computer equipment, mortgage or loan obligations and amounts due as a result of product and company acquisitions. The Company has commitments to invest $17 million in connection with joint venture agreements.

It is expected that existing cash, cash equivalents, marketable securities, the availability of borrowings under credit lines and expected cash provided from operations will be sufficient to meet ongoing cash requirements. The Company expects to renew its bank credit lines prior to their expiration, during the quarter ended June 30, 2003. The Company expects its long-standing history of providing extended payment terms to customers to continue under the new business model.

Contractual Obligations and Commitments

As of March 31, 2002, the Company's contractual obligations and commitments were as follows:

Outstanding debt, inclusive of interest to be paid on such debt, grouped by year of maturity, is as follows: 2003—$696 million; 2004—$1,612 million; 2005—$108 million; 2006—$882 million; 2007—$716 million and thereafter—$351 million.

In addition, future minimum lease payments under operating leases are: 2003—$140 million; 2004—$101 million; 2005—$85 million; 2006—$64 million; 2007—$56 million; and thereafter—$198 million.

The Company also has commitments to invest $17 million in connection with joint venture agreements.

New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations." SFAS 141 addresses the accounting for acquisitions of businesses and is effective for acquisitions occurring on or after July 1, 2001. This statement is not expected to have an impact on the Company.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which requires the use of a nonamortization approach to account for purchased goodwill and certain intangibles. This statement is effective for fiscal years beginning after December 15, 2001. Under the nonamortization approach, goodwill and certain intangibles will not be amortized into results of operations, but instead will be reviewed for impairment, written down and charged to results of operations only in periods in which the recorded value of goodwill and certain intangibles is more than its fair value. The Company is having an independent valuation analysis completed and does not anticipate any material transitional impairment; however, future impairment reviews may result in periodic write-downs. SFAS 142 will have the effect of substantially reducing the Company's amortization of goodwill and intangibles commencing April 1, 2002. The Company amortized $429 million, $470 million and $221 million of goodwill for the fiscal years ended March 31, 2002, 2001 and 2000, respectively.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS 143 requires, among other things, that entities record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. This statement is not expected to have an impact on the Company.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS 144 requires, among other things, that long-lived assets be measured at the lower of carrying amount or fair value, less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The Company is currently assessing the impact of adoption of SFAS 144.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections." SFAS 145, among other things, rescinds SFAS 4, which required all gains and losses from the extinguishment of debt to be classified as an extraordinary item and amends SFAS 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. This statement is not expected to have an impact on the Company.

The Emerging Issues Task Force ("EITF") of the FASB issued EITF 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." This EITF is effective for annual and interim financial statements beginning after December 15, 2001. EITF 00-25, as further defined by EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," requires, among other things, that payments made to resellers by the Company for cooperative advertising, buydowns and similar arrangements should be classified as reductions to net sales. Such payments, primarily consisting of rebates, incentives and other cooperative advertising type costs, totaled $13 million for the fiscal year ended March 31, 2002. The Company has historically reported such payments as a component of SG&A. To enable comparisons between fiscal 2002 results and the results of prior years, the Company has reclassified these payments in the prior years from SG&A to software fees and other. The impact of the reclassification reduces both software fees and other and SG&A by $16 million and $18 million in fiscal years 2001 and 2000, respectively. The reclassifications do not affect the Company's (loss) profit from operations, net (loss) income or basic and diluted (loss) earnings per share.

The Emerging Issues Task Force issued EITF D-103, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred." This EITF is effective for financial reporting periods beginning after December 15, 2001. EITF D-103 requires that reimbursements received for out-of-pocket expenses incurred should be characterized as revenue in the statement of operations. Such reimbursements totaled $8 million for the fiscal year ended March 31, 2002. The Company has historically reported such reimbursements as a component of SG&A. To enable comparisons between fiscal 2002 results and the results of prior years, the Company has reclassified these reimbursements in the prior years from SG&A to professional services revenue. The impact of the reclassification increases both professional services revenue and SG&A by $8 million and $9 million in fiscal years 2001 and 2000, respectively. The reclassifications do not affect the Company's (loss) profit from operations, net (loss) income or basic and diluted (loss) earnings per share.

Risk Factors

Current and potential stockholders should consider carefully the risk factors described below. Any of these factors, or others, many of which are beyond the Company's control, could negatively affect the Company's revenue, profitability or cash flow in the future. Such risks are described in further detail in documents we file with the Securities and Exchange Commission, including our most recent reports on Form 10-K, Form 8-K, Form 10-Q and amendments thereto.

- *Operating results and revenue are subject to fluctuations caused by many factors.*
- *The computer software business is highly competitive.*
- *The software business is marked by easy entry and large, entrenched businesses.*
- *The Company's products must remain compatible with ever-changing operating environments.*
- *Future product development is dependent upon access to third-party operating systems.*
- *Third-party microcode could impact product development.*
- *Customer decisions are influenced by general economic conditions.*
- *Failure to protect the Company's intellectual property rights would weaken its competitive position.*
- *The markets for some or all of the Company's key product areas may not continue to grow.*
- *Certain software is licensed from third parties.*
- *Customers are still adapting to the Company's new business model.*
- *Third parties could claim that the Company's products infringe their intellectual property rights.*
- *Changes to compensation of the Company's sales organization.*
- *The success of the Company's international operations is subject to many factors.*
- *Fluctuations in foreign currencies could result in transaction losses.*
- *The Company could be subject to fines, penalties or other sanctions as a result of a joint inquiry by the SEC and U.S. Attorney's Office.*
- *The Company may become dependent upon large transactions.*
- *A large portion of business is consummated at the end of each quarter.*
- *Growth depends upon successful integration of acquisitions.*
- *The Company has a significant amount of debt.*
- *The Company's credit ratings have been downgraded and could be downgraded further.*
- *The Company's stock price may continue to be volatile.*
- *Acts of terrorism or war may adversely affect the Company's business.*

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The Company's exposure to market rate risk for changes in interest rates relates primarily to the Company's investment portfolio, debt payable and installment accounts receivable. The Company has a prescribed methodology whereby it invests its excess cash in debt instruments of government agencies and high-quality corporate issuers (Standard & Poor's single "A" rating and higher). To mitigate risk, many of the securities have a maturity date within one year, and holdings of any one issuer excluding the U.S. Government do not exceed 10% of the portfolio. Periodically, the portfolio is reviewed and adjusted if the credit rating of a security held has deteriorated. The Company does not utilize derivative financial instruments.

The Company maintains a blend of both fixed and floating rate debt instruments. As of March 31, 2002, the Company's outstanding debt approximated $3.8 billion, with approximately $2.5 billion in fixed rate obligations. If market rates were to decline, the Company could be required to make payments on the fixed rate debt that would exceed those based on current market rates. Each 25 basis point decrease in interest rates would have an associated annual opportunity cost of approximately $6 million. Each 25 basis point increase or decrease in interest rates would have an approximately $3 million annual effect on variable rate debt interest based on the balances of such debt as of March 31, 2002.

The Company offers financing arrangements with installment payment terms in connection with its software solution sales. The aggregate contract value under the old business model includes an imputed interest element, which can vary with the interest rate environment. Each 25 basis point increase in interest rates would have an associated annual opportunity cost of approximately $9 million.

Foreign Currency Exchange Risk

The Company conducts business on a worldwide basis through branches and subsidiaries in 45 countries. The Company is therefore exposed to movement in currency exchange rates. As part of its risk management strategy and consistent with prior years, the Company did not enter into any foreign exchange derivative transactions. In addition, the Company manages its level of exposure by denominating international sales and payments of related expense in the local currency of its subsidiaries. A 1% decline in all foreign currencies against the U.S. dollar would have an insignificant effect on the Company's net (loss) income.

Equity Price Risk

The Company has minimal investments in marketable equity securities of publicly traded companies. As of March 31, 2002, these investments were considered available-for-sale with any unrealized gains or losses deferred as a component of stockholders' equity. It is not customary for the Company to make investments in equity securities as part of its investment strategy.

Selected Financial Data

Statement of Operations Data	2002[1]	2001[2]	2000[3][4]	1999[5]	1998[6]
	Year Ended March 31, (in millions, except per share amounts)				
Revenue[7]	$ 2,964	$ 4,190	$ 6,094	$ 4,649	$ 4,186
Net (loss) income	(1,102)	(591)	696	626	1,169
— Basic (loss) earnings per share[8]	$ (1.91)	$ (1.02)	$ 1.29	$ 1.15	$ 2.14
— Diluted (loss) earnings per share[8]	(1.91)	(1.02)	1.25	1.11	2.06
Dividends declared per common share[8]	.080	.080	.080	.080	.073

Balance Sheet and Other Data	2002	2001	2000	1999	1998
	March 31, (in millions)				
Cash provided by operating activities	$ 1,251	$ 1,383	$ 1,566	$ 1,267	$ 1,040
Working capital[7]	740	357	988	768	379
Total assets[7]	12,226	14,436	17,493	8,070	6,706
Long-term debt (less current maturities)	3,334	3,629	4,527	2,032	1,027
Stockholders' equity	4,617	5,780	7,037	2,729	2,481

(1) Includes an after-tax charge of $49 million related to an impairment of assets sold in April 2002.
(2) Includes an after-tax gain of $115 million related to the 1995 Stock Plan and an after-tax charge of $19 million related to the bankruptcy filing of Inacom Corporation.
(3) Includes after-tax in-process research and development ("IPR&D") charges of $645 million related to the acquisition of PLATINUM in May 1999 and $150 million related to the acquisition of Sterling in March 2000. See Note 2 of the Notes to Consolidated Financial Statements for additional information.
(4) Includes an after-tax charge of $32 million related to CHS Electronics, Inc.
(5) Includes an after-tax charge of $675 million related to the 1995 Stock Plan.
(6) Includes an after-tax charge of $21 million related to the Company's unsuccessful tender offer for Computer Sciences Corporation.
(7) Adjusted to reflect prior period reclassifications. See Note 1 of the Consolidated Financial Statements for additional information.
(8) Adjusted to reflect a three-for-two stock split effective November 5, 1997.

Consolidated Statements of Operations

	2002	2001	2000
	Year Ended March 31, (in millions, except per share amounts)		
Revenue:			
Subscription revenue	$ 827	$ 59	$ —
Software fees and other	432	1,881	4,179
Maintenance	958	1,087	877
Financing fees	444	638	529
Professional services	303	525	509
TOTAL REVENUE	2,964	4,190	6,094
Operating Expenses:			
Amortization of capitalized software costs	487	492	271
Cost of professional services	283	463	446
Selling, general and administrative	1,790	2,120	1,462
Product development and enhancements	678	695	568
Commissions and royalties	275	308	300
Depreciation and amortization of goodwill and other intangibles	609	618	323
Purchased research and development	—	—	795
1995 Stock Plan	—	(184)	—
TOTAL OPERATING EXPENSES	4,122	4,512	4,165
(Loss) income before other expenses	(1,158)	(322)	1,929
Interest expense, net	227	344	339
(Loss) income before income taxes	(1,385)	(666)	1,590
Income taxes	(283)	(75)	894
NET (LOSS) INCOME	$(1,102)	$ (591)	$ 696
BASIC (LOSS) EARNINGS PER SHARE	$ (1.91)	$ (1.02)	$ 1.29
Basic weighted-average shares used in computation	577	582	539
DILUTED (LOSS) EARNINGS PER SHARE	$ (1.91)	$ (1.02)	$ 1.25
Diluted weighted-average shares used in computation	577*	582*	557

* Common share equivalents are not included since their effect would be antidilutive.

See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

	March 31, 2002	March 31, 2001
	(dollars in millions)	
Assets		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,093	$ 763
Marketable securities	87	87
Trade and installment accounts receivable, net	1,825	1,788
Deferred income taxes	—	106
Other current assets	56	65
TOTAL CURRENT ASSETS	3,061	2,809
INSTALLMENT ACCOUNTS RECEIVABLE, due after one year, net	1,566	2,883
PROPERTY AND EQUIPMENT		
Land and buildings	531	524
Equipment, furniture and improvements	857	839
	1,388	1,363
Accumulated depreciation and amortization	670	569
TOTAL PROPERTY AND EQUIPMENT, net	718	794
PURCHASED SOFTWARE PRODUCTS, net of accumulated amortization of $2,648 and $2,193, respectively	1,836	2,328
GOODWILL AND OTHER INTANGIBLE ASSETS, net of accumulated amortization of $1,524 and $1,023, respectively	4,835	5,400
OTHER ASSETS	210	222
TOTAL ASSETS	$12,226	$14,436

See Notes to the Consolidated Financial Statements.

	March 31, 2002	March 31, 2001
	(dollars in millions)	
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES		
Loans payable and current portion of long-term debt	$ 508	$ 816
Accounts payable	208	272
Salaries, wages and commissions	236	196
Accrued expenses and other current liabilities	474	613
Deferred subscription revenue (collected) — current	577	166
Taxes payable, other than income taxes payable	116	132
Federal, state and foreign income taxes payable	195	257
Deferred income taxes	7	—
TOTAL CURRENT LIABILITIES	2,321	2,452
LONG-TERM DEBT, net of current portion	3,334	3,629
DEFERRED INCOME TAXES	1,267	1,900
DEFERRED SUBSCRIPTION REVENUE (COLLECTED) — NONCURRENT	208	127
DEFERRED MAINTENANCE REVENUE	456	538
OTHER NONCURRENT LIABILITIES	23	10
STOCKHOLDERS' EQUITY		
Preferred stock, no par value, 10,000,000 shares authorized, no shares issued	—	—
Common stock, $.10 par value, 1,100,000,000 shares authorized 630,920,576 shares issued	63	63
Additional paid-in capital	3,878	3,936
Retained earnings	2,335	3,483
Accumulated other comprehensive loss	(361)	(388)
Treasury stock, at cost — 53,739,842 shares for 2002 and 55,223,485 shares for 2001	(1,298)	(1,314)
TOTAL STOCKHOLDERS' EQUITY	4,617	5,780
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$12,226	$14,436

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	(in millions, except dividends declared per share)					
Balance at March 31, 1999	$63	$1,141	$3,468	$(180)	$(1,763)	$ 2,729
Net income			696			696
Translation adjustment in 2000				(91)		(91)
Reclassification adjustment included in net income				(9)		(9)
Comprehensive income						596
Dividends declared ($.080 per share)			(43)			(43)
Exercise of common stock options and other		9			117	126
Business acquisitions		2,742			867	3,609
401(k) discretionary contribution		10			10	20
Balance at March 31, 2000	63	3,902	4,121	(280)	(769)	7,037
Net loss			(591)			(591)
Translation adjustment in 2001				(109)		(109)
Unrealized gains on equity securities, net of tax				1		1
Comprehensive loss						(699)
Dividends declared ($.080 per share)			(47)			(47)
Exercise of common stock options, ESPP and other		17			80	97
1995 Stock Plan					(184)	(184)
401(k) discretionary contribution		17			8	25
Purchases of treasury stock					(449)	(449)
Balance at March 31, 2001	63	3,936	3,483	(388)	(1,314)	5,780
Net loss			(1,102)			(1,102)
Translation adjustment in 2002				31		31
Unrealized loss on equity securities, net of tax				(4)		(4)
Comprehensive loss						(1,075)
Dividends declared ($.080 per share)			(46)			(46)
Purchase of a call spread option		(95)				(95)
Exercise of common stock options, ESPP		33			91	124
401(k) discretionary contribution		4			20	24
Purchases of treasury stock					(95)	(95)
Balance at March 31, 2002	$63	$3,878	$2,335	$(361)	$(1,298)	$ 4,617

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Year Ended March 31, 2002	2001	2000
	(in millions)		
Operating Activities:			
Net (loss) income	$(1,102)	$ (591)	$ 696
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	1,096	1,110	594
Provision for deferred income taxes	(544)	(350)	412
Charge for purchased research and development	—	—	795
Compensation expense (gain) related to stock and pension plans	24	(146)	30
Decrease (increase) in noncurrent installment accounts receivable, net	1,316	828	(1,039)
Increase in deferred subscription revenue (collected)—noncurrent	81	127	—
(Decrease) increase in deferred maintenance revenue	(81)	(3)	113
Foreign currency transaction loss—before taxes	6	14	5
Impairment charge	59	—	50
Gain on sale of property and equipment	—	—	(5)
Changes in other operating assets and liabilities, net of effect of acquisitions:			
(Increase) decrease in trade and installment receivables, net—current	(45)	253	83
Increase in deferred subscription revenue (collected)—current	415	166	—
Other changes in operating assets and liabilities	26	(25)	(168)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,251	1,383	1,566
Investing Activities:			
Acquisitions, primarily purchased software, marketing rights and intangibles, net of cash acquired	(2)	(174)	(3,049)
Settlements of purchase accounting liabilities	(59)	(367)	(429)
Purchases of property and equipment	(25)	(89)	(198)
Proceeds from sale of property and equipment	—	5	12
Disposition of businesses	—	158	—
Purchases of marketable securities	(38)	(48)	(95)
Sales of marketable securities	36	40	189
Increase in capitalized development costs and other	(53)	(49)	(36)
NET CASH USED IN INVESTING ACTIVITIES	(141)	(524)	(3,606)
Financing Activities:			
Dividends paid	(46)	(47)	(43)
Purchases of treasury stock	(95)	(449)	—
Proceeds from borrowings	3,387	1,049	3,672
Repayments of borrowings	(3,967)	(1,981)	(776)
Purchase of a call spread option	(95)	—	—
Exercise of common stock options and other	40	50	96
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(776)	(1,378)	2,949
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES ON CASH	334	(519)	909
Effect of exchange rate changes on cash	(4)	(25)	(1)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	330	(544)	908
CASH AND CASH EQUIVALENTS—BEGINNING OF YEAR	763	1,307	399
CASH AND CASH EQUIVALENTS—END OF YEAR	$1,093	$ 763	$ 1,307

See Notes to the Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1—Significant Accounting Policies

Description of Business: Computer Associates International, Inc. and subsidiaries (the "Company") designs, develops, markets, licenses and supports a wide range of integrated enterprise computer software solutions.

Principles of Consolidation: The Consolidated Financial Statements include the accounts of the Company and its majority-owned and controlled subsidiaries. Investments in affiliates owned 50% or less are accounted for by the equity method with liabilities of approximately $5 million. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, these estimates may ultimately differ from actual results.

Translation of Foreign Currencies: Foreign currency assets and liabilities of the Company's international subsidiaries are translated using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates prevailing throughout the year. The effects of exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are accumulated as part of the foreign currency translation adjustment in Stockholders' Equity. Gains and losses from foreign currency transactions are included in the "Selling, general and administrative" ("SG&A") line item on the Consolidated Statements of Operations in the period in which they occur. Net (loss) income includes exchange transaction losses of approximately $4 million, $9 million and $3 million in the fiscal years ended March 31, 2002, 2001 and 2000, respectively.

Basis of Revenue Recognition: The Company derives revenue from licensing software products and providing post-contract customer support (hereafter referred to as "maintenance") and professional services, such as consulting and education services. The Company licenses its software products to end users primarily through the Company's direct sales force.

The Company licenses to customers the right to use its software products pursuant to software license agreements (hereafter referred to as a "license arrangement"). The license arrangement generally restricts the customer's right to use the Company's enterprise software products as specified in the license arrangement. The license arrangements' original terms generally range from one to ten years for license arrangements prior to December 2000 and one to five years for license arrangements beginning in December 2000. In addition, customers can subscribe to software arrangements under month-to-month licenses beginning in December 2000. The timing and amount of license revenue recognized during an accounting period is determined by the nature of the contractual provisions included in the license arrangement with customers.

Beginning in December 2000, the Company began executing software license arrangements that include flexible contractual provisions that, among other things, allow customers to receive unspecified future software products within designated product lines. Under these arrangements (referred to as the "new business model"), the Company is required to recognize revenue attributable to the software products ratably over the term of the license arrangement commencing upon delivery of the currently available software products.

The Company recognizes revenue pursuant to the requirements of the American Institute of Certified Public Accountants ("AICPA") Statement of Position No. 97-2 "Software Revenue Recognition" ("SOP 97-2"), issued in October 1997, as amended by AICPA Statement of Position No. 98-4 and No. 98-9. SOP 97-2 was effective for the Company April 1, 1998. Amendment 98-4 deferred for one year to April 1, 1999, the effective date of certain SOP 97-2 provisions pertaining to multiple-element arrangements. SOP 98-9 amended SOP 97-2 and requires recognition of revenue under the "residual method" when certain criteria are met and was effective for the Company April 1, 1999. These statements set forth GAAP for recognizing revenue on software transactions and establish four criteria necessary in order to recognize revenue—persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. Under the residual method, revenue is recognized in a multiple-element arrangement when company-specific objective evidence of fair value exists for all of the undelivered elements in the arrangement, but does not exist for one or more of the delivered elements in the arrangement. At the outset of the arrangement with the customer, the Company defers revenue for the fair value of its undelivered elements (e.g., maintenance, consulting, education services) and recognizes revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement when the criteria in SOP 97-2 have been met. For license arrangements prior to December 2000 (referred to as the "old business model"), once the four criteria in SOP 97-2 were met, revenue was recognized up-front for such delivered elements. Under the new business model, once the four criteria are met, revenue attributable to license and maintenance fees is recognized ratably over the arrangement term as the terms of such arrangements provide for flexible contractual provisions, such as "unspecified future deliverables."

Subscription Revenue: Subscription revenue represents the ratable recognition of revenue by the Company attributable to license arrangements under the new business model.

Deferred subscription revenue, in general, represents the aggregate portion of all undiscounted contractual and committed license and maintenance fees pursuant to all new business model arrangements that has not yet been recognized as revenue on a ratable basis over the life of the license arrangement.

Beginning in fiscal year 2002, the Company has disaggregated the total deferred subscription revenue into two components, the amount of cash collected in excess of the amount recognized as revenue and the amount that has not yet been collected that has not been recognized as revenue. Each appears within the Company's Consolidated Balance Sheets as "Deferred subscription revenue (collected)," and as "Deferred subscription revenue," a component of installment accounts receivable, respectively. The components of installment accounts receivables are detailed in Note 5. Each of these components is further classified as either current or non-current. Balances applicable to fiscal year 2001 have been reclassified for comparability purposes.

Software Fees and Other: Prior to December 2000, the Company executed software license arrangements that included contractual provisions that resulted in the recognition of revenue attributable to the software products upon delivery of the software products, provided that the arrangement fee was fixed or determinable, collectibility of the fee was probable and persuasive evidence of an arrangement existed.

The Company has a standard business practice of entering into long-term installment contracts with customers. The Company has a history of enforcing the contract terms and successfully collecting under such arrangements, and therefore considers such fees fixed or determinable.

The Company also enters into license arrangements with distribution partners whereby revenue is recognized upon sell-through to the end user by the distribution partner.

Maintenance: For arrangements executed under the old business model, maintenance was bundled for a portion of the term of the license arrangement. Under these arrangements, the fair value of the maintenance, which was based on optional annual renewal rates stated in the arrangement, initially was deferred and subsequently amortized into revenue over the initial contractual term of the arrangement. Maintenance renewals have been recognized ratably over the term of the renewal arrangement. The Company has recently experienced maintenance renewal rates on such contracts of approximately 80%.

The "Deferred maintenance revenue" line item on the Company's Consolidated Balance Sheets principally represents payments received in advance of services rendered as of the balance sheet dates.

For arrangements executed under the new business model, maintenance is bundled for the entire term of the license arrangement. Under these arrangements, maintenance revenue is included in subscription revenue and is recognized ratably over the term of the license arrangement, along with the license fee, commencing upon delivery of the currently available software products.

Financing Fees: Accounts receivable resulting from old business model product sales with extended payment terms are discounted to present value at prevailing market rates. In subsequent periods, the receivable is increased to the amount due and payable by the customer through the accretion of financing revenue on the unpaid receivables due in future years.

Professional Services: Professional services revenue is derived from the Company's consulting services and educational programs. The fair value of the professional services, which is based on fees charged to customers when the related services are sold separately or under time and materials contracts, initially is deferred and subsequently recognized as revenue when the services are performed. For professional services rendered pursuant to a fixed-price contract, revenue is recognized on the percentage-of-completion method.

Marketable Securities: The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The Company has determined that all of its investment securities are to be classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in Stockholders' Equity under the caption "Accumulated Other Comprehensive Loss." The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in SG&A expenses. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

Fair Value of Financial Instruments: The fair value of the Company's cash and cash equivalents, accounts payable and accrued expense amounts approximate their carrying value. See Notes 3, 5 and 6 for the fair value related to the Company's investments, accounts receivable and debt payable, respectively.

Statement of Cash Flows: Interest payments for the fiscal years ended March 31, 2002, 2001 and 2000 were $239 million, $344 million and $319 million, respectively. Income taxes paid for these fiscal years were $277 million, $317 million and $368 million, respectively.

Concentration of Credit Risk: Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of marketable securities and accounts receivable. The Company's marketable securities consist primarily of high-quality securities with limited exposure to any single instrument. The Company's accounts receivable balances have limited exposure to concentration of credit risk due to the diverse customer base and geographic areas covered by operations.

Property and Equipment: Land, buildings, equipment, furniture and improvements are stated at cost. Depreciation and amortization are provided over the estimated useful lives of the assets by the straight-line method. Building and improvements are generally estimated to have 30 to 40 year lives and the remaining property and equipment are estimated to have 5 to 7 year lives.

Accounting for Stock-Based Compensation: The Company accounts for employee stock-based compensation in accordance with Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees" and related interpretations. Pro forma net (loss) income and net (loss) income per share disclosures required by SFAS 123 "Accounting for Stock-Based Compensation" are included in Note 9.

Goodwill: Goodwill represents the excess of the aggregate purchase price over the fair value of the tangible and identifiable assets and in-process research and development acquired by the Company in a purchase business combination. The Company amortizes goodwill over its estimated useful life, which ranges from 10 to 20 years, depending on the nature of the business acquired. The Company recorded amortization of goodwill for the fiscal years ended March 31, 2002, 2001 and 2000 of $429 million, $470 million and $221 million, respectively. Unamortized goodwill at March 31, 2002 and 2001 was $4,483 million and $4,976 million, respectively. In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which requires the use of a non-amortization approach to account for purchased goodwill and certain intangibles. This statement is effective for fiscal years beginning after December 15, 2001. Under the non-amortization approach, goodwill and certain intangibles will not be amortized into results of operations, but instead will be reviewed for impairment and written down and charged to results of operations only in periods in which the recorded value of goodwill and certain intangibles is more than its fair value. The Company is having an independent valuation analysis completed and does not anticipate any material transitional impairment; however, future impairment reviews may result in future periodic write-downs. SFAS 142 will have the effect of eliminating the Company's amortization of goodwill commencing April 1, 2002.

Capitalized Software Costs: Capitalized software costs include the fair value of rights to market software products acquired in purchase business combinations ("Purchased Software Products"). In allocating the purchase price to the assets acquired in a purchase business combination, the Company allocates a portion of the purchase price equal to the fair value at the acquisition date of the rights to market the software products of the acquired company. The Company recorded amortization of Purchased Software Products for the fiscal years ended March 31, 2002, 2001 and 2000 of $455 million, $467 million and $250 million, respectively, which were included in the "Amortization of capitalized software costs" line item on the accompanying Consolidated Statements of Operations.

In accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," internally generated software development costs associated with new products and significant enhancements to existing software products are expensed as incurred until technological feasibility has been established. Internally generated software development costs of $53 million, $49 million and $36 million were capitalized during fiscal years 2002, 2001 and 2000, respectively. The Company recorded amortization of $32 million, $25 million and $21 million for the fiscal years ended March 31, 2002, 2001 and 2000, respectively, which was included in the "Amortization of capitalized software costs" line item on the accompanying Consolidated Statements of Operations. Unamortized internally generated software development costs included in the "Other Assets" line item on the accompanying Consolidated Balance Sheets as of March 31, 2002 and 2001 were $130 million and $111 million, respectively.

Annual amortization of capitalized software costs is the greater of the amount computed using (i) the ratio that current gross revenue for a product bears to the total of current and anticipated future revenue for that product or (ii) the straight-line method over the remaining estimated economic life of the product. The Company amortized capitalized software costs using the straight-line method in fiscal years 2002, 2001 and 2000, as anticipated future revenue is projected to increase for several years considering the Company is continuously integrating current enterprise software technology into new solutions.

The carrying values of goodwill, purchase software products, other intangible assets and other long-lived assets, including investments, are reviewed on a regular basis for the existence of facts or circumstances, both internally and externally, that may suggest impairment, which includes an assessment of the net realizable value of capitalized software costs as of the balance sheet date. If an impairment is determined to exist, any related impairment loss is calculated based on net realizable value for capitalized software and fair value for all other intangibles.

Net (Loss) Earnings per Share: Basic (loss) earnings per share and diluted (loss) earnings per share are computed by dividing net (loss) income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the sum of the weighted-average number of common shares outstanding for the period plus the assumed exercise of all dilutive securities, such as stock options and convertible securities.

	Year Ended March 31,		
	2002	2001	2000
(in millions, except per share amounts)			
Net (loss) income[1]	$(1,102)	$ (591)	$ 696
Diluted (Loss) Earnings per Share			
Weighted-average shares outstanding and common share equivalents	577	582	557
Diluted (Loss) Earnings per Share	$ (1.91)	$(1.02)	$1.25
Diluted Share Computation			
Weighted-average common shares outstanding	577	582	539
Weighted-average convertible Senior Note shares outstanding[2]	—	—	—
Weighted-average stock options outstanding, net	—	—	18
Weighted-average shares outstanding and common share equivalents[3]	577	582	557

(1) If the twelve-month period ended March 31, 2002 had resulted in net income, interest expense related to the convertible senior notes would have been added back to the net income in order to calculate diluted earnings per share. The related interest expense, net of tax, for the year ended March 31, 2002 totaled less than $1 million.
(2) Beginning in fiscal year 2003, the common share equivalents related to convertible debt outstanding would amount to 27 million to the extent that they are not antidilutive.
(3) For fiscal years 2002 and 2001, common share equivalents (convertible senior note shares and stock options) are not included since their effect would be antidilutive. If the twelve-month periods ended March 31, 2002 and 2001 had resulted in net income, the weighted-average shares outstanding and common share equivalents would have been 591 million and 592 million, respectively.

Comprehensive Loss: Comprehensive loss includes foreign currency translation adjustments and unrealized gains or losses on the Company's available-for-sale securities and reclassification adjustments for gains included in net (loss) income. As of March 31, 2002 and 2001, the accumulated comprehensive loss included a foreign currency translation loss of $358 million and $389 million, respectively, and an unrealized (loss) gain on equity securities of $(3) million and $1 million, respectively. The components of comprehensive loss, net of applicable tax, for the fiscal years ended March 31, 2002, 2001 and 2000, are included within the Consolidated Statements of Stockholders' Equity.

Reclassifications: Certain prior years' balances have been reclassified to conform with the current year's presentation.

The Emerging Issues Task Force ("EITF") of the FASB issued EITF 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." This EITF is effective for annual and interim financial statements beginning after December 15, 2001.

EITF 00-25, as further defined by EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," requires, among other things, that payments made to resellers by the Company for cooperative advertising, buydowns and similar arrangements should be classified as reductions to net sales. Such payments, primarily consisting of rebates, incentives and other cooperative advertising type costs, totaled $13 million for the fiscal year ended March 31, 2002. The Company has historically reported such payments as a component of SG&A. To enable comparisons between fiscal 2002 results and the results of prior years, the Company has reclassified these payments in the prior years from SG&A to the "Software fees and other" line item. The impact of the reclassification reduces both software fees and other and SG&A by $16 million and $18 million in fiscal years 2001 and 2000, respectively. The reclassifications do not affect the Company's (loss) profit from operations, net (loss) income or basic and diluted (loss) earnings per share.

The Emerging Issues Task Force issued EITF D-103, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred." This EITF is effective for financial reporting periods beginning after December 15, 2001. EITF D-103 requires that reimbursements received for out-of-pocket expenses incurred should be characterized as revenue in the statement of operations. Such reimbursements totaled $8 million for the fiscal year ended March 31, 2002. The Company has historically reported such reimbursements as a component of SG&A. To enable comparisons between fiscal 2002 results and the results of prior years, the Company has reclassified these reimbursements in the prior years from SG&A to the "Professional services" revenue line item. The impact of the reclassification increases both professional services revenue and SG&A by $8 million and $9 million in fiscal years 2001 and 2000, respectively. The reclassifications do not affect the Company's (loss) profit from operations, net (loss) income or basic and diluted (loss) earnings per share.

The Company has historically included the cost of professional services as components of the SG&A and "Commissions and royalties" line items on the Consolidated Statements of Operations. Beginning in fiscal year 2002, such costs have been included in the "Cost of professional services" line item. To enable comparisons between fiscal 2002 results and the results of prior years, the Company has reclassified these costs in the prior years from SG&A and commissions and royalties to cost of professional services. The impact of the reclassification reduces SG&A and increases cost of professional services by $437 million and $418 million in fiscal years 2001 and 2000, respectively, and reduces commissions and royalties and increases cost of professional services by $26 million and $28 million in fiscal years 2001 and 2000, respectively. The reclassifications do not affect the Company's (loss) profit from operations, net (loss) income or basic and diluted (loss) earnings per share.

The Company has historically included the amortization of purchased software and internally developed capitalized software as a component of the "Depreciation and amortization" line item on the Consolidated Statements of Operations. Beginning in fiscal year 2002, such costs have been included in the "Amortization of capitalized software costs" line item. To enable comparisons between fiscal 2002 results and the results of prior years, the Company has reclassified these costs in the prior years from depreciation and amortization to amortization of capitalized software costs. In addition, the title of the line item "Depreciation and amortization" has been changed to "Depreciation and amortization of goodwill and other intangibles" to more fully describe the components of that line item. The impact of the reclassification reduces depreciation and amortization of goodwill and other intangibles and increases amortization of capitalized software costs by $492 million and $271 million in fiscal years 2001 and 2000, respectively. The reclassifications do not affect the Company's (loss) profit from operations, net (loss) income or basic and diluted (loss) earnings per share.

Payments received in advance of the recognition of the related revenue for product license fees recorded under the new business model are shown as "Deferred subscription revenue (collected)" on the accompanying Consolidated Balance Sheets. See the "Subscription revenue" caption of Note 1 for additional information concerning this reclassification. At March 31, 2001, this amount was reflected in "Trade and installment accounts receivable, net" and "Installment accounts receivable."

Note 2 — Acquisitions

On March 31, 2000, the Company acquired Sterling and merged one of its wholly owned subsidiaries into Sterling, at which time Sterling became a wholly owned subsidiary of the Company. The shareholders of Sterling received 0.5634 shares of the Company's common stock for each share of Sterling common stock. The Company issued approximately 46.8 million shares of common stock with an approximate fair value of $3.3 billion. Sterling was a developer and provider of systems management, business intelligence and application development software products and services, as well as a supplier of specialized information technology services for sectors of the federal government.

On May 28, 1999, the Company acquired the common stock and the options to acquire the common stock of PLATINUM in a cash transaction of approximately $3.6 billion, which was paid from drawings under the Company's $4.5 billion credit agreements. PLATINUM was engaged in providing software products in the areas of database management, eBusiness, application infrastructure management, decision support, data warehousing and knowledge management, as well as Year 2000 reengineering and other consulting services.

The purchase price for the Sterling and PLATINUM acquisitions have been allocated to assets acquired and liabilities assumed based on their fair value at the dates of acquisitions, as adjusted within the allocation period, as follows:

	Sterling	PLATINUM
	(in millions)	
Cash and cash equivalents	$ 476	$ 57
Deferred income taxes, net	(377)	(62)
Other assets, net	109	141
In-process research and development	150	645
Purchased software products	1,532	972
Goodwill and other intangibles[1]	2,177	2,502
Purchase Price	$4,067	$4,255

(1) Includes an allocation for the assembled workforce, customer relationships, and trademarks/trade names of $142 million and $337 million for Sterling and PLATINUM, respectively.

An independent analysis using future product cash flow forecasts and percentage of product development completion assumptions was utilized to value the in-process research and development amounts which had not reached technological feasibility and had no alternative future use. Accordingly, $645 million and $150 million were expensed as non-recurring charges in fiscal year 2000 related to the PLATINUM and Sterling acquisitions, respectively.

The following table reflects unaudited pro forma combined results of the operations of the Company, Sterling and PLATINUM, as adjusted within the allocation period, on the basis that the acquisitions had taken place at the beginning of fiscal year 2000 under the old business model:

	Year Ended March 31, 2000
	(in millions, except per share amounts)
Revenue	$7,073
Net income	362
Basic earnings per share	$ .62
Shares used in computation	586
Diluted earnings per share	$ .60
Shares used in computation	604

The following table reflects unaudited pro forma combined results of the operations of the Company, Sterling and PLATINUM, as adjusted within the allocation period, on the basis that the acquisitions had taken place at the beginning of fiscal year 2000 under the old business model. All special charges, net of taxes, including the purchased research and development charge for PLATINUM and Sterling in fiscal year 2000 of $645 million and $150 million, respectively, the non-cash charge of $32 million related to CHS Electronics, Inc. ("CHS") recorded in fiscal year 2000, and all special charges recorded by PLATINUM and Sterling in fiscal year 2000 have been excluded:

	Year Ended March 31, 2000
	(in millions, except per share amounts)
Revenue	$7,073
Net income	1,344
Basic earnings per share	$ 2.29
Shares used in computation	586
Diluted earnings per share	$ 2.23
Shares used in computation	604

In management's opinion, the pro forma combined results of operations are not indicative of the actual results that would have occurred had the acquisitions been consummated at the beginning of fiscal year 2000 and had been under the old business model or of future operations of the combined entities under the ownership and operation of the Company.

On October 31, 2000, the Company completed the sale of Sterling's Federal Systems Group ("FSG"), a provider of government consulting services, for approximately $150 million in cash. Since the Company did not note the occurrence of any events or trends that would have impacted the fair value of FSG since the purchase of Sterling, the Company viewed the selling price of FSG as an indicator of its fair value and adjusted the allocation of Sterling's purchase price. As a result, no gain or loss was recorded on the sale.

During fiscal years 2002, 2001 and 2000, the Company acquired other consulting businesses and product technologies in addition to the ones described above, which, individually or collectively, were not material to the consolidated financial statements taken as a whole. The excess of cost over net assets acquired is being amortized on a straight-line basis over the expected period to be benefited. The Consolidated Statements of Operations reflect the results of operations of the companies since the effective dates of the acquisitions.

Liabilities related to acquisitions consist of the following:

	Sterling		PLATINUM		Other	
	Duplicate Facilities and Other Costs	Employee Costs	Duplicate Facilities and Other Costs	Employee Costs	Duplicate Facilities and Other Costs	Employee Costs
			(in millions)			
Balance at March 31, 1999	$ —	$ —	$ —	$ —	$108	$26
New charges	169	304	268	183	—	12
Settlements	—	—	(88)	(115)	(8)	(18)
Adjustments	—	—	—	—	(73)	—
Balance at March 31, 2000	$169	$ 304	$180	$ 68	$ 27	$20
Settlements	(30)	(302)	(53)	(19)	(4)	(7)
Adjustments	(39)	25	(28)	(4)	—	—
Balance at March 31, 2001	$100	$ 27	$ 99	$ 45	$ 23	$13
Settlements	(22)	(5)	(25)	(15)	(5)	(5)
Adjustments	—	(16)	(23)	(3)	(12)	(7)
Balance at March 31, 2002	$ 78	$ 6	$ 51	$ 27	$ 6	$ 1

The employee costs relate to involuntary termination benefits and the duplicate facilities and other costs relate to operating leases, which are actively being renegotiated and expire at various times through 2010, negotiated buyouts of the operating lease commitments and other contractually related liabilities. The fiscal year 2001 Sterling and PLATINUM adjustments represent changes in the exit plan from its formulation until its finalization less than one year from the completion of the respective acquisition. The remaining acquisition adjustments, which resulted in a reduction to the corresponding liability and related goodwill, represent reductions due to the settlement of obligations at amounts less than those originally estimated. The remaining liability balances are included in the "Accrued expenses and other liabilities" line item on the accompanying Consolidated Balance Sheets.

Note 3 — Marketable Securities

The following is a summary of marketable securities classified as available-for-sale:

	Year Ended March 31,	
	2002	2001
	(in millions)	
Debt/Equity Securities:		
Cost	$91	$86
Gross unrealized gains	1	1
Gross unrealized losses	(5)	—
Estimated fair value	$87	$87

There were no realized gains or losses for the fiscal years ended March 31, 2002 or 2001. For the fiscal year ended March 31, 2000, the Company recorded an approximate $50 million loss due to an other than temporary decline in the fair value of an investment in CHS Electronics, Inc., which was included within SG&A.

The estimated fair value of debt and equity securities is based upon published closing prices of those securities at March 31, 2002. For debt securities, amortized cost is classified by contractual maturity. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	March 31, 2002	
	Cost	Estimated Fair Value
	(in millions)	
Debt securities recorded at market, maturing:		
Within one year or less	$22	$22
Between one and three years	35	36
Between three and five years	22	22
Beyond five years	1	1
Debt securities recorded at market	80	81
Equity securities recorded at market	11	6
Total marketable securities	$91	$87

Note 4 — Segment and Geographic Information

The Company's chief operating decision-maker reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenue, by geographic region, for purposes of assessing financial performance and making operating decisions. Accordingly, the Company considers itself to be operating in a single industry segment. The Company is principally engaged in the design, development, marketing, licensing and support of integrated enterprise computer software solutions operating on a diverse range of hardware platforms and operating systems. The Company does not manage its business by solution or focus area and therefore does not maintain its revenue on such a basis.

The following table presents information about the Company by geographic area for the fiscal years ended March 31, 2002, 2001 and 2000:

	United States	Europe[a]	Other[a]	Eliminations	Total
			(in millions)		
March 31, 2002					
Revenue:					
To unaffiliated customers	$ 1,847	$ 667	$450	$ —	$ 2,964
Between geographic areas[b]	247	—	—	(247)	—
Total Revenue	2,094	667	450	(247)	2,964
Property and equipment, net	541	151	26	—	718
Identifiable assets	11,193	671	487	(125)	12,226
Total liabilities	6,784	501	449	(125)	7,609
March 31, 2001					
Revenue:					
To unaffiliated customers	$ 2,730	$ 832	$628	$ —	$4,190
Between geographic areas[b]	311	—	—	(311)	—
Total Revenue	3,041	832	628	(311)	4,190
Property and equipment, net	602	160	32	—	794
Identifiable assets	13,823	592	463	(442)	14,436
Total liabilities	7,905	738	455	(442)	8,656
March 31, 2000					
Revenue:					
To unaffiliated customers	$ 4,040	$1,232	$822	$ —	$6,094
Between geographic areas[b]	452	—	—	(452)	—
Total Revenue	4,492	1,232	822	(452)	6,094
Property and equipment, net	609	183	37	—	829
Identifiable assets	16,006	1,091	985	(589)	17,493
Total liabilities	9,381	882	782	(589)	10,456

(a) The Company operates through branches and wholly owned subsidiaries in Canada and 44 foreign countries located in the Middle East, Africa, Europe (22), South America (7), and Asia/Pacific (13). Revenue is allocated to a geographic area based on the location of the sale.
(b) Represents royalties from foreign subsidiaries determined as a percentage of certain amounts invoiced to customers.

No single customer accounted for 10% or more of total revenue for the fiscal years ended March 31, 2002, 2001 or 2000.

Note 5 — Trade and Installment Accounts Receivable

The Company uses installment contracts as a standard business practice and has a history of successfully collecting under the original payment terms without making concessions on payments, software products, maintenance or professional services. Net trade and installment accounts receivable is composed of the total amounts due from customers pursuant to arrangement fee commitments to pay awaiting the passage of time, less unamortized discounts based on imputed interest for the time value of money for contracts under the old business model, unearned revenue attributable to maintenance, deferred subscription revenue, unearned professional services contracted for in the license arrangement and allowances for doubtful accounts. Deferred subscription revenue represents the deferred license and maintenance fees from license arrangements under the new business model, which will amortize into revenue over the respective license arrangement term. Trade and installment accounts receivable consist of the following:

	March 31, 2002	March 31, 2001
	(in millions)	
Billed accounts receivable	$ 1,011	$ 1,443
Unbilled amounts due within the next twelve months — new business model	790	268
Unbilled amounts due within the next twelve months — old business model	1,535	1,773
Less: Allowance for doubtful accounts	(353)	(389)
Net amounts expected to be collected	2,983	3,095
Less: Unearned revenue — current	(1,158)	(1,307)
Net trade and installment accounts receivable — current	$ 1,825	$ 1,788
Unbilled amounts due beyond the next twelve months — new business model	$ 1,565	$ 1,047
Unbilled amounts due beyond the next twelve months — old business model	2,730	4,527
Less: Allowance for doubtful accounts	(60)	(60)
Net amounts expected to be collected	4,235	5,514
Less: Unearned revenue — noncurrent	(2,669)	(2,631)
Net installment accounts receivable — noncurrent	$ 1,566	$ 2,883

At March 31, 2002 and 2001, unearned revenue — current consists of unamortized discounts of $288 million and $435 million, respectively, unearned maintenance of $290 million and $462 million, respectively, deferred subscription revenue of $522 million and $314 million, respectively, and unearned professional services of $58 million and $96 million, respectively.

At March 31, 2002 and 2001, unearned revenue — noncurrent consists of unamortized discounts of $417 million and $727 million, respectively, unearned maintenance of $333 million and $636 million, respectively, and deferred subscription revenue of $1,919 million and $1,268 million, respectively.

Unbilled amounts under the new business model are generally collectible over one to five years. As of March 31, 2002, on a cumulative basis, approximately 34%, 69%, 86%, 93% and 96% of amounts due from customers recorded under the new business model come due within fiscal years ended 2003 through 2007, respectively.

Unbilled amounts under the old business model are generally collectible over three to six years. As of March 31, 2002, on a cumulative basis, approximately 36%, 59%, 74%, 83% and 88% of amounts due from customers recorded under the old business model come due within fiscal years ended 2003 through 2007, respectively.

The provision for doubtful accounts for the fiscal years ended March 31, 2002, 2001 and 2000 was $233 million, $235 million and $77 million, respectively, and is included in SG&A.

The Company expects the allowance for doubtful accounts to continue to decline as net installment accounts receivable under the old business model are billed and collected over the remaining life.

The Company's estimate of the fair value of net installment accounts receivable under the old business model approximate carrying value since it is net of discounts, unearned contractual obligations and an allowance for doubtful accounts. The fair value of the unbilled amounts under the new business model (unbilled amounts due, less deferred subscription revenue) may have a fair value greater than that reflected in the balance sheet. Currently, amounts due from customers under the new business model are offset by unearned revenue related to these contracts, leaving no or minimal carrying value on the balance sheet for such amounts. The fair value may actually exceed this carrying value but cannot be practicably assessed since there is no existing market for a pool of customer receivables with such contractual commitments similar to that of the Company's. The actual fair value may not be known until these amounts are sold, securitized or collected. Although these customer contracts commit the customer to payment under a fixed schedule, the agreements are considered executory in nature due to the ongoing commitment to provide "unspecified future deliverables" as part of the contract terms.

In prior fiscal years, the Company sold individual accounts receivable under the old business model to an external third party subject to certain recourse provisions. These amounts approximated $218 million at March 31, 2002.

Note 6 — Debt

As of March 31, 2002, the Company's committed bank credit facilities consisted of a $1 billion four-year revolver and a $2 billion four-year term loan. The facilities provide for interest based upon the prevailing London InterBank Offered Rate ("LIBOR") subject to a margin determined by a bank facility ratings grid. As of March 31, 2002, $600 million remained outstanding under the term loan at an effective interest rate of approximately 5.13% and $600 million remained outstanding under the four-year revolving credit facility at an effective interest rate of approximately 2.83%. These interest rates represent LIBOR plus an applicable margin on tranches ranging from one month to one year. In April 2002, the Company repaid $250 million of the four-year revolving credit facility that was due in the first quarter of fiscal year 2004. During fiscal year 2002, the Company elected not to renew its $1.3 billion 364-day facility when it expired in May 2001. In addition, the Company repaid a 75 million British Pound Sterling denominated 364-day facility.

The Company is also required to maintain certain financial ratios. Covenant calculations are based upon maintaining a ratio of cash generated from operations to interest expense, as well as maintaining a ratio of cash generated from operations to total debt, all of which is defined within the credit agreement. The Company is in compliance with such covenants.

In March 2002, the Company issued $660 million of 5% Convertible Senior Notes due 2007 (the "Notes"). The Notes were issued to the initial purchasers pursuant to a private placement under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act") and subsequently resold to Qualified Institutional Buyers in reliance on Rule 144A and Regulation S of the Securities Act. The initial purchasers received a discount of 2.5% and the net proceeds to the Company were $644 million before deducting expenses payable by the Company of less than $1 million.

The Notes are senior unsecured indebtedness and rank equally with all existing senior unsecured indebtedness. The holders of the Notes may convert all or some of their Notes at any time prior to or on March 14, 2007, unless previously redeemed or repurchased, at a conversion price of $24.34 per share. The initial conversion rate is 41.0846 shares per $1,000 principal amount of the Notes and is subject to adjustment under certain circumstances. The Notes may not be redeemed by the Company during the first three years that they are outstanding and may be called thereafter until maturity at the Company's option at declining premiums to par. The Company intends to file a registration statement with respect to the Notes and the common stock issuable upon conversion of the Notes. Concurrently with the issuance of the Notes, the Company entered into a Call Spread repurchase option transaction ("Call Spread"). The option purchase price of the Call Spread was $95 million. The entire purchase price of $95 million has been charged to Stockholders' Equity. Under the terms of the Call Spread, the Company has the option to purchase outstanding shares equivalent to the number of shares that may be issued if all Notes are converted into shares (27.1159 million shares), thereby mitigating dilution to shareholders. The Call Spread can be exercised at the three-year anniversary of the issuance of the Notes, at an exercise price of $24.83 per share. To limit the cost of the Call Spread, an upper limit of $36.60 per share has been set such that if the price of the common stock is above that limit at the time of exercise, the number of shares eligible to be purchased will be proportionately reduced based on the amount the common share price exceeds $36.60 at time of exercise. The Call Spread is intended to give the Company the option at the three-year anniversary to eliminate dilution as a result of the Notes being converted to common shares up to the $36.60 price per common share and significantly mitigate dilution if the share price exceeds $36.60 at that time. The Call Spread was provided by two leading banking institutions.

As of March 31, 2002 and 2001, the Company has the following unsecured, fixed-rate interest senior note obligations outstanding:

	March 31, 2002	March 31, 2001
	(in millions)	
6.770% Senior Notes due April 2003	$128	$192
6.250% Senior Notes due April 2003	$575	$575
6.375% Senior Notes due April 2005	$825	$825
5.000% Convertible Senior Notes due March 2007	$660	—
6.500% Senior Notes due April 2008	$350	$350

Debt ratings for the Company's senior unsecured notes and bank credit facilities are Baa2 and BBB+ from Moody's Investors Service and Standard & Poor's, respectively.

The Company is an issuer of Commercial Paper ("CP"). The above-mentioned revolver supports the CP program as a backstop facility. The program, rated A-2 by Standard & Poor's and P-2 by Moody's Investors Service, provides for maximum issuance of up to $1 billion in CP with maturities not to exceed 270 days. The Company had $82 million and $340 million of CP outstanding at March 31, 2002 and 2001, respectively, which bore interest at rates approximating 2.37% and 5.90%, respectively.

Unsecured and uncommitted multicurrency credit facilities of $51 million are available to meet any short-term working capital requirements and can be drawn upon, up to a predefined limit, by most subsidiaries. Under these multicurrency facilities, approximately $15 million and $14 million was drawn at March 31, 2002 and 2001, respectively.

As of March 31, 2002 and 2001, the Company had various other debt obligations outstanding, which approximated $7 million and $20 million, respectively.

The Company conducts an ongoing review of its capital structure and debt obligations as part of its risk management strategy. As of March 31, 2002, the fair value of the Company's debt was approximately $83 million less than its carrying value.

The maturities of outstanding debt for the next five fiscal years are as follows: 2003—$508 million; 2004—$1,497 million; 2005—$0; 2006—$826 million; and 2007—$660 million.

Interest expense for the fiscal years ended March 31, 2002, 2001 and 2000 was $249 million, $370 million and $352 million, respectively.

Note 7—Commitments and Contingencies

The Company leases real estate and certain data processing and other equipment with lease terms expiring through 2023. The leases are operating leases and generally provide for renewal options and additional rentals based on escalations in operating expenses and real estate taxes. The Company has no material capital leases.

Rental expense under operating leases for the fiscal years ended March 31, 2002, 2001 and 2000, was $220 million, $238 million and $205 million, respectively. Future minimum lease payments are: 2003—$140 million; 2004—$101 million; 2005—$85 million; 2006—$64 million; 2007—$56 million; and thereafter—$198 million.

The Company has commitments to invest $17 million in connection with joint venture agreements.

In prior fiscal years, the Company sold individual accounts receivable under the old business model to an external third party subject to certain recourse provisions. These amounts approximated $218 million at March 31, 2002.

The Company, Charles B. Wang, Sanjay Kumar and Russell M. Artzt are defendants in a number of shareholder class action lawsuits, the first of which was filed July 23, 1998, alleging that a class consisting of all persons who purchased the Company's stock during the period January 20, 1998 until July 22, 1998 were harmed by misleading statements, representations and omissions regarding the Company's future financial performance. These cases, which seek monetary damages in an unspecified amount, have been consolidated into a single action (the "Shareholder Action") in the United States District Court for the Eastern District of New York ("NY Federal Court"). The NY Federal Court denied the defendants' motion to dismiss the Shareholder Action, and the parties currently are engaged in discovery. Although the ultimate outcome and liability, if any, cannot be determined, management, after consultation and review with counsel, believes that the facts do not support the plaintiffs' claims in the Shareholder Action and that the Company and its officers and directors have meritorious defenses. In the opinion of management, resolution of this litigation is not expected to have a material adverse effect on the financial position of the Company. In the event of an unfavorable resolution of this matter, however, the Company's earnings and cash flows in one or more periods could be materially adversely affected.

In addition, three derivative actions, the first of which was filed on July 30, 1998, alleging misleading statements and omissions similar to those alleged in the Shareholder Action were brought in the NY Federal Court on behalf of the Company against a majority of the Directors who were serving on the Company's board at that time. Another derivative action on behalf of the Company, alleging that the Company issued 14.25 million more shares than were authorized under the 1995 Key Employee Stock Ownership Plan (the "1995 Stock Plan"), was filed in the NY Federal Court. These derivative actions were consolidated into a single action (the "Derivative Action") in the NY Federal Court. Lastly, a derivative action on behalf of the Company was filed in the Chancery Court in Delaware (the "Delaware Action") on September 15, 1998 alleging that 9.5 million more shares were issued to the three 1995 Stock Plan participants than were authorized under the 1995 Stock Plan. The Derivative Action and the Delaware Action have been settled and both actions have been dismissed. Under the terms of the settlement the 1995 Stock Plan participants returned 4.5 million shares of Computer Associates stock to the Company. In the first quarter of fiscal year 2001, the Company recorded a $184 million gain in conjunction with the settlement.

On September 28, 2001, the United States Department of Justice filed a lawsuit alleging that the Company and PLATINUM had violated Federal antitrust laws, including alleged violation of the waiting period under the Hart-Scott-Rodino Act, in connection with the Company's acquisition of PLATINUM in May 1999. On April 23, 2002, the Company reached a settlement with the Department of Justice pursuant to which the Company will not admit any wrongdoing and will pay the government $638 thousand. The settlement is expected to become final after a public comment period of 60 days from the filing of the settlement order.

Since February 2002, the Company has been cooperating with a joint inquiry by the United States Attorney's Office for the Eastern District of New York and the staff of the Northeast Regional Office of the Securities and Exchange Commission concerning certain of the Company's accounting practices. The investigation appears generally to be focusing on issues relating to the Company's historical revenue recognition policies and practices. The Company has produced documents and information in response to a request for the voluntary production of documents, and understands that third parties have received subpoenas from the SEC for documents issued pursuant to a formal order of investigation. Such an order gives the SEC staff authority to issue subpoenas and take testimony, though the Company understands that the issuance of such an order does not reflect any finding or determination that any violation of law has occurred. The Company intends to continue to cooperate fully with the inquiry. At this point, the Company cannot predict the scope or outcome of the inquiry, which may include the institution of administrative, civil injunctive or criminal proceedings, the imposition of fines and penalties, or other remedies and sanctions. The Company also cannot predict what impact, if any, the inquiry may have on the Company's results of operations or financial condition.

In February and March 2002, a number of shareholder lawsuits were filed in the U.S. District Court for the Eastern District of New York against the Company and Messrs. Wang, Kumar and Ira H. Zar, the Company's Chief Financial Officer. The lawsuits allege, among other things, that the Company made misleading statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. Each of the named individual plaintiffs seeks to represent a class consisting of purchasers of the Company's common stock and call options and sellers of put options for the period May 28, 1999 through February 25, 2002. Class action status has not yet been certified in this litigation. In April 2002, a derivative suit against all the Directors of the Company except Mr. Jay W. Lorsch and Mr. Walter P. Schuetze was filed in the Chancery Court in Delaware alleging breach of their fiduciary duties resulting in damages to the Company of an unspecified amount. This derivative suit is based on essentially the same allegations as those contained in the February and March 2002 shareholder lawsuits. The Company believes that the facts do not support the claims in these lawsuits and the Company and its officers and directors have meritorious defenses and intend to contest the lawsuits vigorously. In the opinion of management, resolution of this litigation is not expected to have a material adverse effect on the financial position of the Company. In the event of an unfavorable resolution of this matter, however, the Company's earnings and cash flows in one or more periods could be materially adversely affected.

The Company, various subsidiaries and certain current and former officers have been named as defendants in other various claims and lawsuits arising in the normal course of business. The Company believes that it has meritorious defenses in connection with such claims and lawsuits and intends to vigorously contest each of them. In the opinion of the Company's management, the results of these other claims and lawsuits, either individually or in the aggregate, are not expected to have a material effect on the Company's results of operations, financial position or cash flows.

Note 8—Income Taxes

The amounts of (loss) income before (benefit) provision for income taxes attributable to domestic and foreign operations are as follows:

	Year Ended March 31,		
	2002	2001	2000
	(in millions)		
Domestic	$(1,166)	$(344)	$1,452
Foreign	(219)	(322)	138
	$(1,385)	$(666)	$1,590

The (benefit) provision for income taxes consists of the following:

	Year Ended March 31,		
	2002	2001	2000
	(in millions)		
Current:			
Federal	$ 186	$ 204	$401
State	19	20	25
Foreign	56	51	56
	261	275	482
Deferred:			
Federal	$(401)	$(169)	$381
State	(41)	(14)	26
Foreign	(102)	(167)	5
	(544)	(350)	412
Total:			
Federal	$(215)	$ 35	$782
State	(22)	6	51
Foreign	(46)	(116)	61
	$(283)	$ (75)	$894

The (benefit) provision for income taxes is reconciled to the tax (benefit) provision computed at the federal statutory rate as follows:

	Year Ended March 31,		
	2002	2001	2000
	(in millions)		
Tax (benefit) expense at U.S. federal statutory rate	$(485)	$(233)	$556
Increase in tax expense resulting from:			
Purchased research and development	—	—	278
Non-deductible amortization of excess cost over net assets acquired	186	177	83
Effect of international operations, including foreign sales corporation	(4)	(25)	(72)
State taxes, net of federal tax benefit	(12)	4	33
Valuation allowance	21	—	—
Other, net	11	2	16
	$(283)	$ (75)	$894

Deferred income taxes reflect the impact of temporary difference between the carrying amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes. The tax effects of the temporary differences are as follows:

	March 31,	
	2002	2001
	(in millions)	
Deferred tax assets	$ 141	$ 173
Valuation allowance	(21)	—
Total deferred tax assets	120	173
Deferred tax liabilities:		
Modified accrual basis accounting	$ 842	$1,260
Purchased software	552	707
Total deferred tax liabilities	1,394	1,967
Net deferred tax liability	$1,274	$1,794

Deferred tax assets primarily relate to acquisition liabilities, such as duplicate facility, employee severance and other costs, and foreign net operating losses ("NOLs"). Foreign NOLs totaled approximately $185 million and $75 million as of March 31, 2002 and 2001, respectively. These NOLs generally expire between 2003 and 2013. A valuation allowance on the net deferred tax assets of $120 million was not established in the year ended March 31, 2002 for certain NOLs since management believes it is more likely than not that such NOLs will be realized.

No provision has been made for federal income taxes on unremitted earnings of the Company's foreign subsidiaries (approximately $242 million of earnings as of March 31, 2002), since the Company plans to permanently reinvest all such earnings.

Note 9 — Stock Plans

The Company had a 1981 Incentive Stock Option Plan (the "1981 Plan") pursuant to which options to purchase up to 27 million shares of Common Stock of the Company were available for grant to employees (including officers of the Company). The 1981 Plan expired on October 23, 1991. Therefore, from and after that date no new options could be granted under the 1981 Plan. Pursuant to the 1981 Plan, the exercise price could not be less than the Fair Market Value ("FMV") of each share at the date of grant. Options granted thereunder could be exercised in annual increments commencing one year after the date of grant and became fully exercisable after five years. All options expired ten years from date of grant unless otherwise terminated. As of March 31, 2002, there were no options outstanding under the 1981 Plan.

The Company has a 1987 Non-Statutory Stock Option Plan (the "1987 Plan") pursuant to which options to purchase up to 17 million shares of Common Stock of the Company could be granted to select officers and key employees of the Company. Pursuant to the 1987 Plan, the exercise price shall not be less than the FMV of each share at the date of grant. The option period shall not exceed 12 years. Options granted thereunder may be exercised in annual increments commencing one year after the date of grant and become fully exercisable after five years. The 1987 Plan expired on March 24, 2002. Therefore, from and after that date no new options can be granted under the 1987 Plan. All of the 3.0 million options which are outstanding under the 1987 Plan are exercisable as of March 31, 2002. These options are exercisable at $2.22 — $4.26 per share.

The Company's 1991 Stock Incentive Plan (the "1991 Plan") provides that stock appreciation rights and/or options, both qualified and non-statutory, to purchase up to 67.5 million shares of Common Stock of the Company may be granted to employees (including officers of the Company). Options granted thereunder may be exercised in annual increments commencing one year after the date of grant and become fully exercisable after five years. All options expire ten years from date of grant unless otherwise terminated. Shares terminated that were unexercised are available for reissuance. As of March 31, 2002, no stock appreciation rights have been granted under this plan and 70.9 million options have been granted, including options issued that were previously terminated due to employee forfeitures. As of March 31, 2002, 20.0 million of the 36.7 million options which were outstanding under the 1991 Plan were exercisable. These options are exercisable at $4.26 — $74.69 per share.

The 1993 Stock Option Plan for Non-Employee Directors (the "1993 Plan") provides for non-statutory options to purchase up to a total of 337,500 shares of Common Stock of the Company to be available for grant to each member of the Board of Directors who is not otherwise an employee of the Company. Pursuant to the 1993 Plan, the exercise price shall be the FMV of the shares covered by the option at the date of grant. The option period shall not exceed ten years, and each option may be exercised in whole or in part on the first anniversary date of its grant. As of March 31, 2002, 222,750 options have been granted under this plan. As of March 31, 2002, all of the 128,250 options which are outstanding under the 1993 Plan are exercisable. These options are exercisable at $7.59 — $51.44 per share.

The 2001 Stock Option Plan (the "2001 Plan") was effective as of July 1, 2001. The 2001 Plan provides that non-statutory and incentive stock options to purchase up to 7.5 million shares of Common Stock of the Company may be granted to select employees and consultants. All options expire ten years from the date of grant unless otherwise terminated. As of March 31, 2002, 4.5 million options have been granted. These options are exercisable in annual increments commencing one year after the date of grant and become fully exercisable after three years. As of March 31, 2002, 4.5 million options are outstanding, none of which are exercisable.

In connection with the acquisitions in fiscal year 2000, options outstanding under the acquired companies' stock option plans were converted into options to purchase 7.2 million shares of Common Stock of the Company. As of March 31, 2002, 2.5 million of the 2.7 million options outstanding are exercisable at $3.27—$70.12 per share. Options granted under these acquired companies' plans become exercisable over periods ranging from one to five years and expire ten years from the date of grant.

The following table summarizes the activity under these plans (shares in millions):

	2002		2001		2000	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Beginning of year	48.5	$28.71	47.6	$28.39	41.0	$21.67
Granted	4.5	21.90	11.1	27.01	7.1	51.87
Acquisition	—	—	—	—	7.2	31.07
Exercised	(3.2)	12.40	(4.5)	9.93	(6.9)	14.53
Terminated	(2.9)	32.88	(5.7)	37.28	(.8)	30.54
End of year	46.9	28.83	48.5	28.71	47.6	28.39
Options exercisable at end of year	25.5	$24.77	23.4	$20.72	22.9	$15.68

The following table summarizes information about these plans as of March 31, 2002 (shares in millions):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$ 2.22–$10.00	7.1	1.6 years	$ 6.18	7.0	$ 6.18
10.01– 20.00	4.5	3.2 years	19.26	4.5	19.27
20.01– 30.00	18.4	7.8 years	25.85	4.8	26.93
30.01– 40.00	7.1	5.4 years	35.76	5.1	35.47
40.01– 50.00	3.6	5.5 years	46.91	2.5	46.98
50.01– 74.69	6.2	7.3 years	51.89	1.6	52.08
	46.9			25.5	

The Company maintains the Year 2000 Employee Stock Purchase Plan (the "Purchase Plan") for all eligible employees. Under the terms of the Purchase Plan, employees may elect to withhold between 1% and 25% of their base pay through regular payroll deductions, subject to Internal Revenue Code limitations. Shares of the Company's common stock may be purchased at six-month intervals at 85% of the lower of the FMV on the first or the last day of each six-month period. During fiscal 2002, employees purchased 654,163 shares at an average price of $21.91 per share. As of March 31, 2002, 28.7 million shares were reserved for future issuance.

If the Company had elected to recognize compensation expense based on fair value of stock plans as prescribed by SFAS No. 123, net (loss) income and net (loss) earnings per share would have been adjusted to the pro forma amounts in the table below:

	Year Ended March 31,		
	2002	2001	2000
	(in millions, except per share amounts)		
Net (loss) income — as reported	$(1,102)	$ (591)	$ 696
Net (loss) income — pro forma	(1,185)	(688)	608
Basic (loss) earnings per share — as reported	$ (1.91)	$(1.02)	$1.29
Basic (loss) earnings per share — pro forma	(2.05)	(1.18)	1.13
Diluted (loss) earnings per share — as reported	$ (1.91)	$(1.02)	$1.25
Diluted (loss) earnings per share — pro forma	(2.05)	(1.18)	1.12

The weighted-average fair value at date of grant for options granted in fiscal 2002, 2001 and 2000 was $13.48, $17.10 and $27.98, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used for option grants in fiscal 2002, 2001 and 2000, respectively: dividend yields of .37%, .30% and .15%; expected volatility factors of .65, .65 and .50; risk-free interest rates of 4.9%, 6.1% and 5.6%; and an expected life of six years. The compensation expense and pro forma net (loss) income may not be indicative of amounts to be included in future periods.

The weighted-average fair value of Purchase Plan shares for offering periods commencing in fiscal 2002, 2001 and 2000 was $11.76, $10.20 and $20.87, respectively. The fair value is estimated on the first date of the offering period using the Black-Scholes option pricing model. The following weighted-average assumptions were used for Purchase Plan shares in fiscal 2002, 2001 and 2000, respectively; dividend yields of .22%, .32% and .11%; expected volatility factors of .65, .65 and .50; risk free interest rates of 2.7%, 5.8% and 6.0%; and an expected life of six months. The compensation expense and pro forma net (loss) income may not be indicative of amounts to be included in future periods.

Under the 1998 Incentive Award Plan (the "1998 Plan"), a total of four million Phantom Shares, as defined in the 1998 Plan, are available for grant to certain of the Company's employees from time to time through March 31, 2008. As of March 31, 2002 approximately 1.1 million Phantom Shares have been awarded under the 1998 Plan. Each Phantom Share is equivalent to one share of the Company's common stock. Vesting, at 20% of the grant amount per annum, is contingent upon attainment of specific criteria, including an annual Target Closing Price ("Price") for the Company's common stock and the participant's continued employment.

The Price is based on the average closing price of the Company's common stock on the New York Stock Exchange for the ten days up to and including March 31 of each fiscal year. The Price was met on March 31, 2000 and the Company began to recognize a non-cash charge over the employment period (approximately $3 million, $2 million and $2 million for the fiscal years ended March 31, 2002, 2001 and 2000, respectively). The Price was not met on either March 31, 2002 or March 31, 2001 for the third and second tranche, respectively. If additional tranches vest, the annual non-cash charge will increase. Since the Price of any future vested Phantom Shares is undetermined, any incremental expense is unknown. As of March 31, 2002, 638,960 Phantom Shares have not been forfeited and are outstanding under the 1998 Plan.

All stock plans of the Company have been approved by the stockholders.

Note 10 — Profit Sharing Plan

The Company maintains a defined contribution plan, the Computer Associates Savings Harvest Plan (the "CASH Plan"), for the benefit of employees of the Company. The CASH Plan is intended to be a qualified plan under Section 401(a) of the Internal Revenue Code of 1986 (the "Code") and contains a qualified cash or deferred arrangement as described under Section 401(k) of the Code. Pursuant to the CASH Plan, eligible participants may elect to contribute a percentage of their base compensation. The matching contributions to the CASH Plan totaled approximately $12 million, $11 million and $10 million for the fiscal years ended March 31, 2002, 2001 and 2000, respectively. In addition, the Company may make discretionary contributions to the CASH Plan. The discretionary contributions to the CASH Plan totaled approximately $24 million, $24 million and $25 million for the fiscal years ended March 31, 2002, 2001 and 2000, respectively.

Note 11— Rights Plan

Each outstanding share of the Company's Common Stock carries a stock purchase right issued under the Company's Rights Agreement, dated June 18, 1991, as amended May 17, 1995, May 23, 2001 and November 9, 2001 (the "Rights Agreement"). Under certain circumstances, each right may be exercised to purchase one one-thousandth of a share of Series One Junior Participating Preferred Stock, Class A, for $150. Under certain circumstances, following (i) the acquisition of 20% or more of the Company's outstanding Common Stock by an Acquiring Person (as defined in the Rights Agreement), (ii) the commencement of a tender offer or exchange offer which would result in a person or group owning 20% or more of the Company's outstanding common stock, or (iii) the determination by the Company's Board of Directors and a majority of the Disinterested Directors (as defined in the Rights Agreement) that a 15% stockholder is an Adverse Person (as defined in the Rights Agreement), each right (other than rights held by an Acquiring Person or Adverse Person) may be exercised to purchase common stock of the Company or a successor company with a market value of twice the $150 exercise price. The rights, which are redeemable by the Company at one cent per right, expire in November 2006.

Note 12 — Subsequent Event

In April 2002, the Company completed the sale to SSA Global Technologies, Inc. ("SSA") of certain assets of the Company, principally the supply-chain management, financial management and human resource management product lines under the name interBiz™. These interBiz operations generated approximately $82 million of revenue for the fiscal year ended March 31, 2002. In addition, at March 31, 2002, approximately $88 million of deferred subscription revenue has accumulated since the introduction of the Company's subscription model in October 2000. Approximately 725 employees were transferred to SSA as part of this transaction. Under the provisions of SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company recorded a non-cash impairment charge to operations related to the above assets of $59 million in March 2002, which was included in SG&A on the accompanying Consolidated Statements of Operations.

International Headquarters

Computer Associates International, Inc.
One Computer Associates Plaza
Islandia, NY 11749
(631) 342-6000
Fax (631) 342-5329

Annual Meeting

The Annual Meeting of the Stockholders of Computer Associates International, Inc. will be held at the Wyndham Wind Watch Hotel located at 1717 Motor Parkway, Islandia, New York, on Wednesday, August 28, 2002 at 10:00 a.m. E.T.

Computer Associates Stock

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "CA". The following table sets forth the quarterly high and low closing prices on the New York Stock Exchange for the quarters indicated.

	High	Low
Fiscal 2002:		
Fourth Quarter	$38.34	$15.98
Third Quarter	$36.56	$24.67
Second Quarter	$36.00	$22.70
First Quarter	$37.19	$25.41

	High	Low
Fiscal 2001:		
Fourth Quarter	$37.50	$18.69
Third Quarter	$33.31	$18.69
Second Quarter	$51.13	$23.88
First Quarter	$62.88	$44.50

On March 28, 2002, the last trading day of the month, the closing price for the Company's Common Stock on the New York Stock Exchange was $21.89. The Company currently has approximately 9,000 record stockholders.

On May 14, 2002, the Company declared its regular, semi-annual cash dividend of $.04 per share to stockholders of record on June 20, 2002 and payable on July 8, 2002. The Company has paid cash dividends in July and January of each year since July 1990.

Independent Auditors

KPMG LLP
345 Park Avenue
New York, NY 10154

Stockholder Information

A copy of the Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is available without charge upon written request addressed to:
Investor Relations
Computer Associates International, Inc.
One Computer Associates Plaza
Islandia, NY 11749
General Company information and quarterly earnings releases can be obtained via the Internet (**ca.com**) or by contacting Investor Relations at (631) 342-5601, by Fax at (631) 342-4854, or by email at **cainvestor@ca.com**.

CA on the Internet

General financial information, including the Annual Report, Forms 10-K and 10-Q, as well as news about CA's products are available on the Internet at **ca.com**.

Dividend Reinvestment Program

CA's Dividend Reinvestment Program allows stockholders to reinvest dividends and invest additional cash to purchase CA Common Stock. You must already be a registered stockholder to participate. For more information, contact CA's transfer agent at the address or telephone number below.

Transfer Agent

Questions concerning dividend reinvestment, stock certificates, address changes, account consolidation, 1099 tax forms, and dividend checks or direct deposit should be directed to:
Mellon Investor Services, LLC
85 Challenger Road
Ridgefield Park, New Jersey 07660
(800) 244-7155 or (201) 329-8660
Hearing Impaired (800) 231-5469
melloninvestor.com
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