CA, INC.
Form 10-Q
October 28, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______
Commission File Number 1-9247

CA, Inc.
(Exact name of registrant as specified in its charter)

Delaware	13-2857434
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
520 Madison Avenue, New York, New York	10022
(Address of principal executive offices)	(Zip Code)

1-800-225-5224
(Registrant's telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
(Check one:)

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Title of Class	Shares Outstanding
Common Stock	as of October 21, 2016
par value $0.10 per share	417,837,016

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PART I. FINANCIAL INFORMATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
CA, Inc.:

We have reviewed the condensed consolidated balance sheet of CA, Inc. and subsidiaries as of September 30, 2016, and the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended September 30, 2016 and 2015, and the related condensed consolidated statements of cash flows for the six-month periods ended September 30, 2016 and 2015. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of CA, Inc. and subsidiaries as of March 31, 2016, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated May 12, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 31, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP
New York, New York
October 28, 2016

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Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except share amounts)

	September 30, 2016 (unaudited)	March 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 2,585	$ 2,812
Trade accounts receivable, net	445	625
Other current assets	148	124
Total current assets	$ 3,178	$ 3,561
Property and equipment, net of accumulated depreciation of $842 and $832, respectively	$ 222	$ 242
Goodwill	6,083	6,086
Capitalized software and other intangible assets, net	662	795
Deferred income taxes	422	407
Other noncurrent assets, net	120	113
Total assets	$ 10,687	$ 11,204
Liabilities and stockholders’ equity		
Current liabilities:		
Current portion of long-term debt	$ 4	$ 6
Accounts payable	76	77
Accrued salaries, wages and commissions	159	205
Accrued expenses and other current liabilities	352	352
Deferred revenue (billed or collected)	1,790	2,197
Taxes payable, other than income taxes payable	27	55
Federal, state and foreign income taxes payable	—	2
Total current liabilities	$ 2,408	$ 2,894
Long-term debt, net of current portion	$ 1,946	$ 1,947
Federal, state and foreign income taxes payable	135	148
Deferred income taxes	3	3
Deferred revenue (billed or collected)	580	737
Other noncurrent liabilities	86	97
Total liabilities	$ 5,158	$ 5,826
Stockholders’ equity:		
Preferred stock, no par value, 10,000,000 shares authorized; No shares issued and outstanding	$ —	$ —
Common stock, $0.10 par value, 1,100,000,000 shares authorized; 589,695,081 and 589,695,081 shares issued; 413,149,727 and 412,596,452 shares outstanding, respectively	59	59
Additional paid-in capital	3,652	3,664
Retained earnings	6,771	6,575
Accumulated other comprehensive loss	(435)	(416)
Treasury stock, at cost, 176,545,354 and 177,098,629 shares, respectively	(4,518)	(4,504)
Total stockholders’ equity	$ 5,529	$ 5,378
Total liabilities and stockholders’ equity	$ 10,687	$ 11,204

See accompanying Notes to the Condensed Consolidated Financial Statements

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CA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in millions, except per share amounts)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Subscription and maintenance	$824	$832	$1,650	$1,668
Professional services	75	83	152	162
Software fees and other	119	90	215	152
Total revenue	$1,018	$1,005	$2,017	$1,982
Expenses:				
Costs of licensing and maintenance	$66	$70	$134	$136
Cost of professional services	73	78	148	149
Amortization of capitalized software costs	59	67	125	127
Selling and marketing	235	248	477	474
General and administrative	84	99	172	189
Product development and enhancements	136	151	284	287
Depreciation and amortization of other intangible assets	18	29	38	56
Other expenses, net	27	4	27	1
Total expenses before interest and income taxes	$698	$746	$1,405	$1,419
Income from continuing operations before interest and income taxes	$320	$259	$612	$563
Interest expense, net	14	12	29	21
Income from continuing operations before income taxes	$306	$247	$583	$542
Income tax expense	94	75	173	163
Income from continuing operations	$212	$172	$410	$379
Income from discontinued operations, net of income taxes	—	2	—	7
Net income	$212	$174	$410	$386
Basic income per common share:				
Income from continuing operations	$0.50	$0.39	$0.98	$0.86
Income from discontinued operations	—	—	—	0.02
Net income	$0.50	$0.39	$0.98	$0.88
Basic weighted average shares used in computation	414	436	414	436
Diluted income per common share:				
Income from continuing operations	$0.50	$0.39	$0.98	$0.86
Income from discontinued operations	—	—	—	0.02
Net income	$0.50	$0.39	$0.98	$0.88
Diluted weighted average shares used in computation	415	437	415	437

See accompanying Notes to the Condensed Consolidated Financial Statements

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CA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(in millions)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2016	2015	2016	2015
Net income	$212	$174	$410	$386
Other comprehensive income (loss):				
Foreign currency translation adjustments	10	(53)	(19)	(21)
Total other comprehensive income (loss)	$10	$(53)	$(19)	$(21)
Comprehensive income	$222	$121	$391	$365

See accompanying Notes to the Condensed Consolidated Financial Statements

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CA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in millions)

	For the Six Months Ended September 30,	
	2016	2015
Operating activities from continuing operations:		
Net income	$410	$386
Income from discontinued operations	—	(7)
Income from continuing operations	$410	$379
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	163	183
Deferred income taxes	(11)	(28)
Provision for bad debts	2	1
Share-based compensation expense	54	45
Other non-cash items	3	—
Foreign currency transaction (gains) losses	(1)	6
Changes in other operating assets and liabilities, net of effect of acquisitions:		
Decrease in trade accounts receivable	176	231
Decrease in deferred revenue	(562)	(496)
(Decrease) increase in taxes payable, net	(86)	2
Increase (decrease) in accounts payable, accrued expenses and other	19	(9)
Decrease in accrued salaries, wages and commissions	(47)	(66)
Changes in other operating assets and liabilities	(17)	(17)
Net cash provided by operating activities - continuing operations	$103	$231
Investing activities from continuing operations:		
Acquisitions of businesses, net of cash acquired, and purchased software	$(1)	$(647)
Purchases of property and equipment	(16)	(23)
Proceeds from sale of short-term investments	—	48
Net cash used in investing activities - continuing operations	$(17)	$(622)
Financing activities from continuing operations:		
Dividends paid	$(214)	$(220)
Purchases of common stock	(100)	(115)
Notional pooling borrowings	467	2,494
Notional pooling repayments	(456)	(2,497)
Debt borrowings	—	800
Debt repayments	(4)	(406)
Debt issuance costs	—	(3)
Exercise of common stock options	26	4
Other financing activities	—	(18)
Net cash (used in) provided by financing activities - continuing operations	$(281)	$39
Effect of exchange rate changes on cash	$(32)	$(1)
Net change in cash and cash equivalents - continuing operations	$(227)	$(353)
Cash provided by operating activities - discontinued operations	$—	$7
Net effect of discontinued operations on cash and cash equivalents	$—	$7
Decrease in cash and cash equivalents	$(227)	$(346)

Cash and cash equivalents at beginning of period	$2,812	$2,804
Cash and cash equivalents at end of period	$2,585	$2,458

See accompanying Notes to the Condensed Consolidated Financial Statements

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CA, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – ACCOUNTING POLICIES

Basis of Presentation: The accompanying unaudited Condensed Consolidated Financial Statements of CA, Inc. (Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 270, for interim financial information and in accordance with the instructions to Rule 10-01 of Securities and Exchange Commission Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the Company’s Consolidated Financial Statements and Notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2016 (2016 Form 10-K). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal, recurring nature.

The preparation of financial statements in conformity with 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.

Operating results for the three and six months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2017.

Divestitures: In the fourth quarter of fiscal year 2016, the Company sold its CA ERwin Data Modeling solution assets (ERwin). The results of operations associated with this business have been presented as discontinued operations in the accompanying Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2015 and Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2015.

Cash and Cash Equivalents: The Company’s cash and cash equivalents are held in numerous locations throughout the world, with approximately 83% being held by the Company’s foreign subsidiaries outside the United States at September 30, 2016.

New Accounting Pronouncements: In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, which creates new ASC Topic 606 (Topic 606) that will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In July 2015, the FASB issued a one-year deferral of the effective date of the new revenue recognition standard. In March 2016, April 2016 and May 2016, the FASB issued additional amendments to the technical guidance of Topic 606. Topic 606 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard will be effective for the Company’s first quarter of fiscal year 2019 and early application for fiscal year 2018 is permitted. The Company is currently evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures. Topic 606 is expected to have a significant effect on the Company’s revenue recognition policies and disclosures. The Company has not yet selected a transition method nor has it determined the effect the standard will have on its ongoing financial reporting.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases (Topic 842), which requires a lessee to recognize assets and liabilities on its consolidated balance sheet for leases with accounting lease terms of more than 12 months. ASU 2016-02 will replace most existing lease accounting guidance in U.S. GAAP when it becomes effective. The new standard states that a lessee will recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of operations. ASU 2016-02 will be effective for the Company’s first quarter of fiscal year 2020 and requires the modified retrospective method of adoption. Early adoption is permitted. Although the Company is currently evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures, the Company expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 (ASU 2016-09), Improvements to Employee Share-Based Payment Accounting (Topic 718), which is intended to simplify several aspects of the accounting for share-based payment award transactions, including the income tax consequences and classification on the statement of cash flows. ASU 2016-09 will be effective for the Company’s first quarter of fiscal year 2018 and early adoption is permitted. The Company is currently evaluating the guidance to determine the adoption methods and the effect that ASU 2016-09 will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15 (ASU 2016-15), Classification of Certain Cash Receipts and Cash Payments (Topic 230), which is intended to reduce diversity in practice on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 will be effective for the Company’s first quarter of fiscal year 2019 and requires a retrospective transition method of adoption. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements and related disclosures.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16 (ASU 2016-16), Intra-Equity Transfers of Assets Other Than Inventory (Topic 740), which is intended to eliminate diversity in practice and provide a more accurate depiction of the tax consequences on intercompany asset transfers (excluding inventory). ASU 2016-16 requires entities to immediately recognize the tax consequences on intercompany asset transfers (excluding inventory) at the transaction date, rather than deferring the tax consequences under current GAAP. ASU 2016-16 will be effective for the Company’s first quarter of fiscal year 2019 and requires a modified retrospective method of adoption. Early adoption is permitted, but only in the first quarter of an entity’s annual fiscal year. The Company is currently evaluating the effect that ASU 2016-16 will have on its consolidated financial statements and related disclosures.

NOTE B – ACQUISITIONS

On July 8, 2015, the Company completed its acquisition of Rally Software Development Corp. (Rally), a provider of Agile development software and services. The acquisition of Rally broadens the Company’s solution set and capabilities to better serve customers in the application economy. Pursuant to the terms of the acquisition agreement and related tender offer, the Company acquired 100% of the outstanding shares of Rally common stock for approximately $519 million. The purchase price allocation for Rally is provided in the table below.

The purchase price allocation for the Company’s other acquisitions during fiscal year 2016, including the second quarter acquisition of Xceedium, Inc. (Xceedium), is included within the “Other Fiscal Year 2016 Acquisitions” column below. The acquisition of Xceedium and the Company’s other acquisitions during fiscal year 2016 were immaterial, both individually and in the aggregate.

(dollars in millions)	Rally	Other Fiscal Year 2016 Acquisitions	Estimated Useful Life
Finite-lived intangible assets [(1)]	$78	$ 14	1-15 years
Purchased software	178	96	5-7 years
Goodwill	257	59	Indefinite
Deferred tax liabilities, net	(45)	(24)	—
Other assets net of other liabilities assumed [(2)]	51	2	—
Purchase price	$519	$ 147	

(1) Includes customer relationships and trade names.

(2) Includes approximately $13 million of cash acquired and approximately $48 million of short-term investments acquired relating to Rally.

The allocation of purchase price to acquired identifiable assets, including intangible assets, for Rally was finalized during the first quarter of fiscal year 2017. The excess purchase price over the estimated value of the net tangible and identifiable intangible assets was recorded to goodwill. The allocation of purchase price to goodwill was predominantly due to synergies the Company expects to achieve through integration of the acquired technology with the Company’s existing product portfolio and the intangible assets that are not separable, such as assembled workforce and going concern. The goodwill relating to the Company’s fiscal year 2016 acquisitions was not deductible for tax purposes and was allocated to the Enterprise Solutions segment. The pro forma effects of the Company’s fiscal year 2016 acquisitions on the Company’s revenues and results of operations during fiscal year 2016 were considered immaterial.

Transaction costs for the Company's fiscal year 2016 acquisitions, which were primarily included in "General and administrative" in the Company's Condensed Consolidated Statements of Operations, were $17 million and $20 million for the three and six months ended September 30, 2015, respectively.

Since Rally and Xceedium were acquired during the second quarter of fiscal year 2016, the Condensed Consolidated Statements of Operations for the six months ended September 30, 2015 included three months of activity for revenue and expenses associated with these acquisitions. During the first quarter of fiscal 2017, the Condensed Consolidated Statements of Operations included total revenue of $35 million and net loss of $5 million for the Company's fiscal year 2016 acquisitions of Rally and Xceedium.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company had approximately $3 million of accrued acquisition-related costs at September 30, 2016 and March 31, 2016 related to purchase price amounts withheld subject to indemnification protections.

NOTE C – TRADE ACCOUNTS RECEIVABLE
Trade accounts receivable, net represents amounts due from the Company's customers and is presented net of allowances. These balances include revenue recognized in advance of customer billings but do not include unbilled contractual commitments executed under license agreements. The components of "Trade accounts receivable, net" were as follows:

	September 30, 2016	March 31, 2016
	(in millions)	
Accounts receivable – billed	$385	$ 566
Accounts receivable – unbilled	60	55
Other receivables	10	13
Less: Allowances	(10)	(9)
Trade accounts receivable, net	$445	$ 625

NOTE D – GOODWILL, CAPITALIZED SOFTWARE AND OTHER INTANGIBLE ASSETS
The gross carrying amounts and accumulated amortization for capitalized software and other intangible assets at September 30, 2016 were as follows:

	At September 30, 2016				
	Gross Amortizable Assets	Less: Fully Amortized Assets	Remaining Amortizable Assets	Accumulated Amortization on Remaining Amortizable Assets	Net Assets
	(in millions)				
Purchased software products	$5,991	$ 4,908	$ 1,083	$ 590	$ 493
Internally developed software products	1,467	1,030	437	356	81
Other intangible assets	927	762	165	77	88
Total capitalized software and other intangible assets	$8,385	$ 6,700	$ 1,685	$ 1,023	$ 662

The gross carrying amounts and accumulated amortization for capitalized software and other intangible assets at March 31, 2016 were as follows:

	At March 31, 2016				
	Gross Amortizable Assets	Less: Fully Amortized Assets	Remaining Amortizable Assets	Accumulated Amortization on Remaining Amortizable Assets	Net Assets
	(in millions)				
Purchased software products	$5,990	$ 4,865	$ 1,125	$ 552	$ 573
Internally developed software products	1,467	1,009	458	333	125
Other intangible assets	927	728	199	102	97
Total capitalized software and other intangible assets	$8,384	$ 6,602	$ 1,782	$ 987	$ 795

CA, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Based on the capitalized software and other intangible assets recorded through September 30, 2016, the projected annual amortization expense for fiscal year 2017 and the next four fiscal years is expected to be as follows:

	Year Ended March 31,				
	2017	2018	2019	2020	2021
	(in millions)				
Purchased software products	$156	$147	$107	$ 82	$ 40
Internally developed software products	79	36	9	1	—
Other intangible assets	16	8	7	6	6
Total	$251	$191	$123	$ 89	$ 46

The Company evaluates the useful lives and recoverability of capitalized software and other intangible assets when events or changes in circumstances indicate that an impairment may exist. These evaluations require complex assumptions about key factors such as future customer demand, technology trends and the impact of those factors on the technology the Company acquires and develops for its products. Impairments or revisions to useful lives could result from the use of alternative assumptions that reflect reasonably possible outcomes related to future customer demand or technology trends for assets within the Enterprise Solutions segment.

Goodwill activity by segment for the six months ended September 30, 2016 was as follows:

(in millions)	Mainframe Solutions	Enterprise Solutions	Services	Total
Balance at March 31, 2016	$ 4,178	$ 1,827	$ 81	$6,086
Foreign currency translation adjustment	—	(3)	—	(3)
Balance at September 30, 2016	$ 4,178	$ 1,824	$ 81	$6,083

NOTE E – DEFERRED REVENUE

The current and noncurrent components of “Deferred revenue (billed or collected)” at September 30, 2016 and March 31, 2016 were as follows:

	September 30, 2016	March 31, 2016
	(in millions)	
Current:		
Subscription and maintenance	$1,596	$ 1,990
Professional services	122	116
Software fees and other	72	91
Total deferred revenue (billed or collected) – current	$1,790	$ 2,197
Noncurrent:		
Subscription and maintenance	$558	$ 712
Professional services	18	21
Software fees and other	4	4
Total deferred revenue (billed or collected) – noncurrent	$580	$ 737
Total deferred revenue (billed or collected)	$2,370	$ 2,934

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CA, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE F – DERIVATIVES
The Company is exposed to financial market risks arising from changes in interest rates and foreign exchange rates. Changes in interest rates could affect the Company's monetary assets and liabilities, and foreign exchange rate changes could affect the Company's foreign currency denominated monetary assets and liabilities and forecasted transactions. The Company enters into derivative contracts with the intent of mitigating a portion of these risks.
Foreign Currency Contracts: The Company enters into foreign currency option and forward contracts to manage foreign currency risks. The Company has not designated its foreign exchange derivatives as hedges. Accordingly, changes in fair value from these contracts are recorded as "Other expenses, net" in the Company's Condensed Consolidated Statements of Operations.
At September 30, 2016, foreign currency contracts outstanding consisted of purchase and sale contracts with a total gross notional value of approximately $900 million and durations of less than six months. The net fair value of these contracts at September 30, 2016 was a net asset of approximately $4 million, of which approximately $8 million is included in "Other current assets" and approximately $4 million is included in "Accrued expenses and other current liabilities" in the Company's Condensed Consolidated Balance Sheet.
At March 31, 2016, foreign currency contracts outstanding consisted of purchase and sale contracts with a total gross notional value of approximately $332 million and durations of less than three months. The net fair value of these contracts at March 31, 2016 was a net liability of approximately $1 million, of which approximately $2 million is included in "Other current assets" and approximately $3 million is included in "Accrued expenses and other current liabilities" in the Company's Condensed Consolidated Balance Sheet.
A summary of the effect of the foreign exchange derivatives on the Company's Condensed Consolidated Statements of Operations was as follows:

	Amount of Net (Gain)/Loss Recognized in the Condensed Consolidated Statements of Operations			
	Three Months Ended September 30,		Six Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Other expenses, net – foreign currency contracts	$ 3	$ (8)	$ 6	$ 3

The Company is subject to collateral security arrangements with most of its major counterparties. These arrangements require the Company or the counterparty to post collateral when the derivative fair values exceed contractually established thresholds. The aggregate fair values of all derivative instruments under these collateralized arrangements were either in a net asset position or under the established threshold at September 30, 2016 and March 31, 2016. The Company posted no collateral at September 30, 2016 or March 31, 2016. Under these agreements, if the Company's credit ratings had been downgraded one rating level, the Company would still not have been required to post collateral.

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CA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE G – FAIR VALUE MEASUREMENTS

The following table presents the Company's assets and liabilities that were measured at fair value on a recurring basis at September 30, 2016 and March 31, 2016:

(in millions)	At September 30, 2016 Fair Value Measurement Using Input Types Level 1	Level 2	Estimated Fair Value Total	At March 31, 2016 Fair Value Measurement Using Input Types Level 1	Level 2	Estimated Fair Value Total
Assets:						
Money market funds (1)	$ 347	$ —	$ 347	$ 617	$ —	$ 617
Foreign exchange derivatives (2)	—	8	8	—	2	2
Total assets	$ 347	$ 8	$ 355	$ 617	$ 2	$ 619
Liabilities:						
Foreign exchange derivatives (2)	$ —	$ 4	$ 4	$ —	$ 3	$ 3
Total liabilities	$ —	$ 4	$ 4	$ —	$ 3	$ 3

(1) The Company's investments in money market funds are classified as "Cash and cash equivalents" in its Condensed Consolidated Balance Sheets.

(2) Refer to Note F, "Derivatives" for additional information.

At September 30, 2016 and March 31, 2016, the Company did not have any assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

The carrying values of financial instruments classified as current assets and current liabilities, such as cash and cash equivalents, short-term investments, accounts payable, accrued expenses and short-term borrowings, approximate fair value due to the short-term maturity of the instruments.

The following table presents the carrying amounts and estimated fair values of the Company's other financial instruments that were not measured at fair value on a recurring basis at September 30, 2016 and March 31, 2016:

(in millions)	At September 30, 2016 Carrying Value	Estimated Fair Value	At March 31, 2016 Carrying Value	Estimated Fair Value
Liabilities:				
Total debt (1)	$1,950	$ 2,079	$1,953	$ 2,058
Facility exit reserve (2)	$13	$ 14	$16	$ 17

(1) Estimated fair value of total debt is based on quoted prices for similar liabilities for which significant inputs are observable except for certain long-term lease obligations, for which fair value approximates carrying value (Level 2).

(2) Estimated fair value for the facility exit reserve is determined using the Company's incremental borrowing rate at September 30, 2016 and March 31, 2016. At September 30, 2016 and March 31, 2016, the facility exit reserve included carrying values of approximately $4 million and $4 million, respectively, in "Accrued expenses and other current liabilities" and approximately $9 million and $12 million, respectively, in "Other noncurrent liabilities" in the Company's Condensed Consolidated Balance Sheets (Level 3).

NOTE H – COMMITMENTS AND CONTINGENCIES

The Company, various subsidiaries, and certain current and former officers have been or, from time to time, may be named as defendants in various lawsuits and claims arising in the normal course of business. The Company may also become involved with contract issues and disputes with customers, including government customers.

On March 24, 2014, the U.S. Department of Justice (DOJ) filed under seal in the United States District Court for the District of Columbia a complaint against the Company in partial intervention under the qui tam provisions of the civil False Claims Act (FCA). The underlying complaint was filed under seal by an individual plaintiff on August 24, 2009. On May 29, 2014, the case was unsealed. Both the DOJ and the individual plaintiff have filed amended complaints. The current complaints relate to government sales transactions under the Company’s General Services Administration (GSA) schedule contract, entered into in 2002 and extended until present through subsequent amendments. In sum and substance, the current complaints allege that the Company provided inaccurate commercial discounting information to the GSA during contract negotiations and that, as a result, the GSA’s contract discount was lower than it otherwise would have been. In addition, the complaints allege that the Company failed to apply the full negotiated discount in some instances and to pay sufficient rebates pursuant to the contract’s price reduction clause. In addition to FCA claims, the current complaints also assert common law causes of action. The DOJ complaint seeks an unspecified amount of damages, including treble damages and civil penalties. The complaint by the individual plaintiff alleges that the U.S. government has suffered damages in excess of $100 million and seeks an unspecified amount of damages, including treble damages and civil penalties. The Company filed motions to dismiss the current complaints. On March 31, 2015, the court issued decisions denying the Company's motion to dismiss the DOJ complaint, and granting in part and denying in part the Company's motion to dismiss the individual plaintiff's complaint. The discovery phase of the case is proceeding pursuant to the court’s scheduling orders. On October 30, 2014, the GSA Suspension and Debarment Division issued a Show Cause Letter to the Company in response to the complaints summarized above. In sum, the letter called on the Company to demonstrate why the U.S. government should continue to contract with the Company, given the litigation allegations made in these complaints. On December 19, 2014, the Company provided a detailed response to the Show Cause Letter. In July 2015, after the Company agreed to assume certain additional reporting requirements during the pendency of the litigation, the GSA Suspension and Debarment Division advised the Company that it had concluded its review and determined that the Company is a responsible contractor with which government agencies could continue to contract. The parties have periodically been engaged in settlement negotiations and, on October 24, 2016, the parties filed a joint motion advising the court that they have reached an agreement-in-principle to resolve the litigation and requesting a 45-day extension of the current court schedule to permit the parties to draft and execute a formal settlement agreement. Also on October 24, 2016, the court granted the joint motion. The agreement-in-principle reached by the parties calls for settlement of the litigation for a payment of $45 million without admitting any wrongdoing. This agreement-in-principle is subject to the negotiation and execution of a definitive settlement agreement, concurrence of the GSA and approval by the United States District Court. As a result of this agreement-in-principle, the legal accrual for this litigation has increased in the current quarter and is recorded in “Other expenses, net” in the Company’s Condensed Consolidated Statements of Operations. As the legal accrual for this litigation has increased, there has been a reduction to the estimated range of reasonably possible loss reflected below. There can be no assurance that the settlement of this litigation will be finalized and approved by the United States District Court. In the event that the settlement of this litigation is not ultimately finalized and approved, this litigation would continue. In that event, the Company cannot predict the amount of damages likely to result from the litigation summarized above. Although the timing and ultimate outcome of this litigation cannot be determined, the Company believes that the material aspects of the liability theories set forth in the litigation complaints are unfounded. The Company also believes that it has meritorious defenses and intends to vigorously contest the lawsuit should a settlement agreement not be executed.

With respect to litigation in general, based on the Company’s experience, management believes that the damages amounts claimed in a case are not a meaningful indicator of the potential liability. Claims, suits, investigations and proceedings are inherently uncertain and it is not possible to predict the ultimate outcome of cases. The Company believes that it has meritorious defenses in connection with its current lawsuits and material claims and disputes, and intends to vigorously contest each of them.

In the opinion of the Company's management based upon information currently available to the Company, while the outcome of these lawsuits, claims and disputes is uncertain, the likely results of these lawsuits, claims and disputes are not expected, either individually or in the aggregate, to have a material adverse effect on the Company's financial position, results of operations or cash flows, although the effect could be material to the Company's results of operations or cash flows for any interim reporting period. The agreement-in-principle of the litigation detailed above, if finalized and approved by the United States District Court, would also have a negative effect on quarterly and full fiscal year cash flows. For some of these matters, the Company is unable to estimate a range of reasonably possible loss due to the stage of the matter and/or other particular circumstances of the matter. For others, a range of reasonably possible loss can be estimated. For those matters for which such a range can be estimated, the Company estimates that, in the aggregate, the range of reasonably possible loss is from zero to $25 million. This is in addition to amounts, if any, that have been accrued for those matters.

The Company is obligated to indemnify its officers and directors under certain circumstances to the fullest extent permitted by Delaware law. As a part of that obligation, the Company may, from time to time, advance certain attorneys' fees and expenses incurred by officers and directors in various lawsuits and investigations, as permitted under Delaware law.

NOTE I – STOCKHOLDERS' EQUITY

Stock Repurchases: On November 13, 2015, the Board approved a stock repurchase program that authorized the Company to acquire up to $750 million of its common stock. During the six months ended September 30, 2016, the Company repurchased approximately 3.1 million shares of its common stock for approximately $100 million. At September 30, 2016, the Company remained authorized to purchase approximately $650 million of its common stock under its current stock repurchase program.

Accumulated Other Comprehensive Loss: Foreign currency translation losses included in "Accumulated other comprehensive loss" in the Company's Condensed Consolidated Balance Sheets at September 30, 2016 and March 31, 2016 were approximately $435 million and $416 million, respectively.

Cash Dividends: The Board declared the following dividends during the six months ended September 30, 2016 and 2015:

Six Months Ended September 30, 2016:

(in millions, except per share amounts)

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
May 4, 2016	$0.255	May 26, 2016	$107	June 14, 2016
August 3, 2016	$0.255	August 25, 2016	$107	September 13, 2016

Six Months Ended September 30, 2015:

(in millions, except per share amounts)

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
May 5, 2015	$0.25	May 28, 2015	$110	June 16, 2015
August 6, 2015	$0.25	August 27, 2015	$110	September 15, 2015

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NOTE J – INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE
Basic net income per common share excludes dilution and is calculated by dividing net income allocable to common shares by the weighted average number of common shares outstanding for the period. Diluted net income per common share is calculated by dividing net income allocable to common shares by the weighted average number of common shares, as adjusted for the potential dilutive effect of non-participating share-based awards.
The following table presents basic and diluted income from continuing operations per common share information for the three and six months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
	(in millions, except per share amounts)			
Basic income from continuing operations per common share:				
Income from continuing operations	$212	$172	$410	$379
Less: Income from continuing operations allocable to participating securities	(3)	(2)	(5)	(4)
Income from continuing operations allocable to common shares	$209	$170	$405	$375
Weighted average common shares outstanding	414	436	414	436
Basic income from continuing operations per common share	$0.50	$0.39	$0.98	$0.86
Diluted income from continuing operations per common share:				
Income from continuing operations	$212	$172	$410	$379
Less: Income from continuing operations allocable to participating securities	(3)	(2)	(5)	(4)
Income from continuing operations allocable to common shares	$209	$170	$405	$375
Weighted average shares outstanding and common share equivalents:				
Weighted average common shares outstanding	414	436	414	436
Weighted average effect of share-based payment awards	1	1	1	1
Denominator in calculation of diluted income per share	415	437	415	437
Diluted income from continuing operations per common share	$0.50	$0.39	$0.98	$0.86

For the three months ended September 30, 2016 and 2015, respectively, approximately 1 million and 2 million shares of Company common stock underlying restricted stock awards (RSAs) and options to purchase common stock were excluded from the calculation because their effect on income per share was anti-dilutive during the respective periods. Weighted average restricted stock awards of approximately 5 million for the three months ended September 30, 2016 and 2015 were considered participating securities in the calculation of net income allocable to common stockholders.
For the six months ended September 30, 2016 and 2015, respectively, approximately 1 million and 2 million shares of Company common stock underlying RSAs and options to purchase common stock were excluded from the calculation because their effect on income per share was anti-dilutive during the respective periods. Weighted average restricted stock awards of approximately 5 million and 4 million for the six months ended September 30, 2016 and 2015, respectively, were considered participating securities in the calculation of net income allocable to common stockholders.

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NOTE K – ACCOUNTING FOR SHARE-BASED COMPENSATION
The Company recognized share-based compensation in the following line items in the Condensed Consolidated Statements of Operations for the periods indicated:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
	(in millions)			
Costs of licensing and maintenance	$1	$1	$3	$3
Cost of professional services	1	1	2	2
Selling and marketing	9	8	19	16
General and administrative	8	9	19	16
Product development and enhancements	6	4	11	8
Share-based compensation expense before tax	$25	$23	$54	$45
Income tax benefit	(8)	(7)	(18)	(14)
Net share-based compensation expense	$17	$16	$36	$31

The following table summarizes information about unrecognized share-based compensation costs at September 30, 2016:

	Unrecognized Share-Based Compensation Costs	Weighted Average Period Expected to be Recognized
	(in millions)	(in years)
Stock option awards	$ 5	2.2
Restricted stock units	24	2.2
Restricted stock awards	89	2.1
Performance share units	40	2.7
Total unrecognized share-based compensation costs	$ 158	2.3

There were no capitalized share-based compensation costs for the three and six months ended September 30, 2016 and 2015.

The value of performance share units (PSUs) is determined using the closing price of the Company's common stock on the last trading day of the quarter until the awards are granted. Compensation costs for the PSUs are amortized over the requisite service periods based on the expected level of achievement of the performance targets. At the conclusion of the performance periods for the PSUs, the applicable number of shares of common stock, RSAs or restricted stock units (RSUs) granted may vary based upon the level of achievement of the performance targets and the approval of the Company's Compensation and Human Resources Committee (which may reduce any award for any reason in its discretion).

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For the six months ended September 30, 2016 and 2015, the Company issued stock options for approximately 1.1 million shares and 0.9 million shares, respectively. The weighted average fair values and assumptions used for the options granted were as follows:

	Six Months Ended September 30, 2016	2015
Weighted average fair value	$4.41	$4.68
Dividend yield	3.57 %	3.37 %
Expected volatility factor (1)	22 %	23 %
Risk-free interest rate (2)	1.5 %	1.9 %
Expected life (in years) (3)	6.0	6.0

(1) Expected volatility is measured using historical daily price changes of the Company's common stock over the respective expected term of the options and the implied volatility derived from the market prices of the Company's traded options.

(2) The risk-free rate for periods within the contractual term of the stock options is based on the U.S. Treasury yield curve in effect at the time of grant.

(3) The expected life is the number of years the Company estimates that options will be outstanding prior to exercise. The Company's computation of expected life was determined based on the simplified method (the average of the vesting period and option term).

The table below summarizes the RSAs and RSUs granted under the 1-year PSUs for the Company's fiscal year 2016 and 2015 incentive plan years. The RSAs and RSUs were granted in the first quarter of fiscal years 2017 and 2016, respectively. The RSAs and RSUs vest 34% on the date of grant and 33% on the first and second anniversaries of the grant date.

Incentive Plans for Fiscal Years	Performance Period	RSAs Shares (in millions)	Weighted Average Grant Date Fair Value	RSUs Shares (in millions)	Weighted Average Grant Date Fair Value
2016	1 year	0.6	$31.53	0.1	$30.53
2015	1 year	0.5	$31.41	0.1	$30.42

The table below summarizes the shares of common stock issued under the 3-year PSUs for the Company's fiscal year 2014 and 2013 incentive plan years in the first quarter of fiscal years 2017 and 2016, respectively.

Incentive Plans for Fiscal Years	Performance Period	Shares of Common Stock (in millions)	Weighted Average Grant Date Fair Value
2014	3 years	0.3	$31.53
2013	3 years	0.1	$31.41

The table below summarizes the RSAs and RSUs granted under the 1-year PSUs for the Company's fiscal year 2016 and 2015 sales retention equity programs. The RSAs and RSUs were granted in the first quarter of fiscal years 2017 and 2016, respectively. The RSAs and RSUs vest on the third anniversary of the grant date.

Incentive Plans for Fiscal Years	Performance Period	RSAs Shares (in millions)	Weighted Average Grant Date Fair Value	RSUs Shares (in millions)	Weighted Average Grant Date Fair Value
2016	1 year	0.3	$31.53	0.1	$28.52
2015	1 year	0.2	$30.45	0.1	$27.50

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The table below summarizes all of the RSAs and RSUs, including grants made pursuant to the long-term incentive plans discussed above, granted during the three and six months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
	(shares in millions)			
RSAs:				
Shares	— (3)	0.1	2.9	2.8
Weighted average grant date fair value (1)	$34.31	$29.86	$31.55	$30.64
RSUs:				
Shares	— (3)	0.1	1.0	0.9
Weighted average grant date fair value (2)	$31.82	$27.72	$30.16	$28.72

(1) The fair value is based on the quoted market value of the Company's common stock on the grant date.
(2) The fair value is based on the quoted market value of the Company's common stock on the grant date reduced by the present value of dividends expected to be paid on the Company's common stock prior to vesting of the RSUs, which is calculated using a risk-free interest rate.
(3) Less than 0.1 million.

Employee Stock Purchase Plan: The Company maintains the 2012 Employee Stock Purchase Plan (ESPP) for all eligible employees. The ESPP offer period is semi-annual and allows participants to purchase the Company's common stock at 95% of the closing price of the stock on the last day of the offer period. The ESPP is non-compensatory. For the six-month offer period ended June 30, 2016, the Company issued approximately 0.1 million shares under the ESPP at $31.19 per share. As of September 30, 2016, approximately 29.1 million shares are available for future issuances under the ESPP.

NOTE L – INCOME TAXES

Income tax expense for the three and six months ended September 30, 2016 was approximately $94 million and $173 million, respectively, compared with income tax expense for the three and six months ended September 30, 2015 of approximately $75 million and $163 million, respectively.

The Company's estimated annual effective tax rate, which excludes the impact of discrete items, for the six months ended September 30, 2016 and 2015 was 29.0% and 29.6%, respectively. Changes in tax laws, the outcome of tax audits and any other changes in potential tax liabilities may result in additional tax expense or benefit in fiscal year 2017, which are not considered in the Company's estimated annual effective tax rate. While the Company does not currently view any such items as individually material to the results of the Company's consolidated financial position or results of operations, the impact of certain items may yield additional tax expense or benefit in the remaining quarters of fiscal year 2017. The Company is anticipating a fiscal year 2017 effective tax rate between 28% and 29%.

NOTE M – SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

For the six months ended September 30, 2016 and 2015, interest payments were approximately $43 million and $32 million, respectively, and income taxes paid, net from continuing operations were approximately $202 million and $131 million, respectively. For the six months ended September 30, 2016 and 2015, the excess tax benefits from share-based incentive awards included in financing activities from continuing operations were approximately $4 million and $3 million, respectively.

Non-cash financing activities for the six months ended September 30, 2016 and 2015 consisted of treasury common shares issued in connection with the following: share-based incentive awards issued under the Company's equity compensation plans of approximately $43 million (net of approximately $33 million of income taxes withheld) and $41 million (net of approximately $27 million of income taxes withheld), respectively; discretionary stock contributions to the CA, Inc. Savings Harvest Plan of approximately $24 million for each period; and treasury common shares issued in connection with the Company's ESPP of approximately $2 million for each period.

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The Company uses a notional pooling arrangement with an international bank to help manage global liquidity. Under this pooling arrangement, the Company and its participating subsidiaries may maintain either cash deposit or borrowing positions through local currency accounts with the bank, so long as the aggregate position of the global pool is a notionally calculated net cash deposit. Because it maintains a security interest in the cash deposits and has the right to offset the cash deposits against the borrowings, the bank provides the Company and its participating subsidiaries favorable interest terms on both. The activity under this notional pooling arrangement for the six months ended September 30, 2016 and 2015 was as follows:

	Six Months Ended September 30,	
	2016	2015
	(in millions)	
Total borrowings outstanding at beginning of period [1]	$139	$138
Borrowings	467	2,494
Repayments	(456)	(2,497)
Foreign exchange effect	(11)	4
Total borrowings outstanding at end of period [1]	$139	$139

(1) Included in "Accrued expenses and other current liabilities" in the Company's Condensed Consolidated Balance Sheets.

NOTE N – SEGMENT INFORMATION

The Company's Mainframe Solutions and Enterprise Solutions segments comprise its software business organized by the nature of the Company's software offerings and the platforms on which the products operate. The Services segment comprises product implementation, consulting, customer education and customer training services, including those directly related to the Mainframe Solutions and Enterprise Solutions software that the Company sells to its customers. Segment expenses do not include amortization of purchased software; amortization of other intangible assets; amortization of internally developed software products; share-based compensation expense; certain foreign exchange derivative hedging gains and losses; approved severance and facility actions by the Board; and other miscellaneous costs. A measure of segment assets is not currently provided to the Company's Chief Executive Officer and has therefore not been disclosed.

The Company's segment information for the three and six months ended September 30, 2016 and 2015 was as follows:

Three Months Ended September 30, 2016 (dollars in millions)	Mainframe Solutions	Enterprise Solutions	Services	Total
Revenue	$ 550	$ 393	$ 75	$1,018
Expenses	211	324	73	608
Segment profit	$ 339	$ 69	$ 2	$410
Segment operating margin	62 %	18 %	3 %	40 %
Depreciation	$ 8	$ 6	$ —	$14

Reconciliation of segment profit to income from continuing operations before income taxes for the three months ended September 30, 2016:

(in millions)	
Segment profit	$410
Less:	
Purchased software amortization	38
Other intangibles amortization	4
Internally developed software products amortization	21

Share-based compensation expense	25
Other expenses, net [1]	2
Interest expense, net	14
Income from continuing operations before income taxes	$306

(1) Other expenses, net consists of costs associated with certain foreign exchange derivative hedging gains and losses, and other miscellaneous costs.