CA, INC.
Form 10-Q
January 27, 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 December 31, 2015
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 (State or other jurisdiction of incorporation or organization)	13-2857434 (I.R.S. Employer Identification Number)
520 Madison Avenue, New York, New York (Address of principal executive offices)	10022 (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 January 20, 2016
par value $0.10 per share	416,762,791

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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 December 31, 2015, and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended December 31, 2015 and 2014, and the related condensed consolidated statements of cash flows for the nine-month periods ended December 31, 2015 and 2014. 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, 2015, 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 8, 2015, 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, 2015, 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
January 27, 2016

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Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2015 (unaudited)	March 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$2,353	$2,804
Trade accounts receivable, net	618	652
Deferred income taxes	341	318
Other current assets	142	213
Total current assets	$3,454	$3,987
Property and equipment, net of accumulated depreciation of $846 and $812, respectively	$249	$252
Goodwill	6,123	5,806
Capitalized software and other intangible assets, net	866	731
Deferred income taxes	55	92
Other noncurrent assets, net	110	111
Total assets	$10,857	$10,979
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	$8	$10
Accounts payable	84	105
Accrued salaries, wages and commissions	179	219
Accrued expenses and other current liabilities	371	428
Deferred revenue (billed or collected)	1,983	2,114
Taxes payable, other than income taxes payable	65	55
Federal, state and foreign income taxes payable	2	—
Deferred income taxes	7	7
Total current liabilities	$2,699	$2,938
Long-term debt, net of current portion	$1,956	$1,253
Federal, state and foreign income taxes payable	154	150
Deferred income taxes	53	45
Deferred revenue (billed or collected)	667	863
Other noncurrent liabilities	101	105
Total liabilities	$5,630	$5,354
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; 412,442,259 and 435,502,730 shares outstanding, respectively	59	59
Additional paid-in capital	3,638	3,631
Retained earnings	6,506	6,221
Accumulated other comprehensive loss	(469)	(418)
Treasury stock, at cost, 177,252,822 and 154,192,351 shares, respectively	(4,507)	(3,868)

Total stockholders’ equity	$5,227	$5,625
Total liabilities and stockholders’ equity	$10,857	$10,979

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 December 31,		For the Nine Months Ended December 31,	
	2015	2014	2015	2014
Revenue:				
Subscription and maintenance	$828	$892	$2,496	$2,709
Professional services	82	90	244	268
Software fees and other	124	109	276	262
Total revenue	$1,034	$1,091	$3,016	$3,239
Expenses:				
Costs of licensing and maintenance	$73	$74	$209	$217
Cost of professional services	75	84	224	253
Amortization of capitalized software costs	65	62	192	204
Selling and marketing	277	283	751	782
General and administrative	90	90	279	269
Product development and enhancements	133	143	420	443
Depreciation and amortization of other intangible assets	27	31	83	99
Other expenses, net	1	6	2	21
Total expenses before interest and income taxes	$741	$773	$2,160	$2,288
Income from continuing operations before interest and income taxes	$293	$318	$856	$951
Interest expense, net	15	12	36	38
Income from continuing operations before income taxes	$278	$306	$820	$913
Income tax expense	59	88	222	248
Income from continuing operations	$219	$218	$598	$665
Income from discontinued operations, net of income taxes	4	4	11	30
Net income	$223	$222	$609	$695
Basic income per common share:				
Income from continuing operations	$0.52	$0.49	$1.37	$1.50
Income from discontinued operations	0.01	0.01	0.03	0.07
Net income	$0.53	$0.50	$1.40	$1.57
Basic weighted average shares used in computation	420	440	431	440
Diluted income per common share:				
Income from continuing operations	$0.52	$0.49	$1.37	$1.49
Income from discontinued operations	0.01	0.01	0.03	0.07
Net income	$0.53	$0.50	$1.40	$1.56
Diluted weighted average shares used in computation	421	441	432	441

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 December 31,		For the Nine Months Ended December 31,	
	2015	2014	2015	2014
Net income	$223	$222	$609	$695
Other comprehensive loss:				
Foreign currency translation adjustments	(30)	(78)	(51)	(162)
Total other comprehensive loss	$(30)	$(78)	$(51)	$(162)
Comprehensive income	$193	$144	$558	$533

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 Nine Months Ended December 31,	
	2015	2014
Operating activities from continuing operations:		
Net income	$609	$695
Income from discontinued operations	(11)	(30)
Income from continuing operations	$598	$665
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	275	303
Deferred income taxes	(53)	(62)
Provision for bad debts	—	1
Share-based compensation expense	70	65
Asset impairments and other non-cash items	1	1
Foreign currency transaction losses	5	1
Changes in other operating assets and liabilities, net of effect of acquisitions:		
Decrease in trade accounts receivable	50	91
Decrease in deferred revenue	(353)	(445)
Increase in taxes payable, net	53	34
Decrease in accounts payable, accrued expenses and other	(50)	(38)
Decrease in accrued salaries, wages and commissions	(43)	(62)
Changes in other operating assets and liabilities	10	(9)
Net cash provided by operating activities - continuing operations	$563	$545
Investing activities from continuing operations:		
Acquisitions of businesses, net of cash acquired, and purchased software	$(648)	$(32)
Purchases of property and equipment	(34)	(46)
Proceeds from sale of short-term investments	48	—
Net cash used in investing activities - continuing operations	$(634)	$(78)
Financing activities from continuing operations:		
Dividends paid	$(325)	$(333)
Purchases of common stock	(705)	(125)
Notional pooling borrowings	3,237	4,226
Notional pooling repayments	(3,230)	(4,145)
Debt borrowings	1,100	—
Debt repayments	(408)	(507)
Debt issuance costs	(4)	—
Exercise of common stock options	5	25
Other financing activities	(23)	—
Net cash used in financing activities - continuing operations	$(353)	$(859)
Effect of exchange rate changes on cash	$(38)	$(310)
Net change in cash and cash equivalents - continuing operations	$(462)	$(702)
Cash provided by (used in) operating activities - discontinued operations	$11	$(37)
Cash provided by investing activities - discontinued operations	—	170
Net effect of discontinued operations on cash and cash equivalents	$11	$133

Decrease in cash and cash equivalents	$(451)	$(569)
Cash and cash equivalents at beginning of period	$2,804	$3,252
Cash and cash equivalents at end of period	$2,353	$2,683

See accompanying Notes to the Condensed Consolidated Financial Statements

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 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, 2015 (2015 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 nine months ended December 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2016.
Divestitures: In the second quarter of fiscal year 2015, the Company sold its CA arcserve data protection solution assets (arcserve). In the fourth quarter of fiscal year 2014, the Company identified its CA ERwin Data Modeling solution assets (ERwin) as available for sale. The results of operations associated with these businesses have been presented as discontinued operations in the accompanying Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows. The effects of the discontinued operations were immaterial to the Company’s Condensed Consolidated Balance Sheets at December 31, 2015 and March 31, 2015. See Note C, “Divestitures,” for additional information.
Cash and Cash Equivalents: The Company’s cash and cash equivalents are held in numerous locations throughout the world, with approximately 84% being held by the Company’s foreign subsidiaries outside the United States at December 31, 2015.
New Accounting Pronouncements: In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606), which 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. ASU 2014-09 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. 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 evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. ASU 2014-09 is expected to have a significant impact on the Company’s revenue recognition policies and disclosures. The Company has not yet selected a transition method nor has it determined when it will adopt the standard and the effect of the standard on its ongoing financial reporting.
In April 2015, the FASB issued Accounting Standards Update No. 2015-03 (ASU 2015-03), Simplifying the Presentation of Debt Issuance Costs (Topic 835), which changes the required presentation of debt issuance costs from an asset on the balance sheet to a deduction from the related debt liability. This guidance will be effective for the Company in its first quarter of fiscal year 2017 and early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.
In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (ASU 2015-17), Balance Sheet Classification of Deferred Taxes (Topic 740), to simplify the presentation of deferred taxes in the statement of financial position. The updated guidance requires that deferred tax assets and liabilities be classified as non-current in the consolidated balance sheets. The standard will be effective for the Company’s first quarter of fiscal year 2018 and early adoption is permitted. This guidance may be applied either prospectively to all deferred tax assets and liabilities,

or retrospectively to all periods presented. The Company is currently in the process of assessing the impact on its consolidated financial statements and evaluating the adoption methods.

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 preliminary purchase price allocation for Rally is provided within the table below.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The preliminary 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	176	96	5-7 years
Goodwill	261	60	Indefinite
Deferred tax liabilities, net	(46)	(25)	—
Other assets net of other liabilities assumed [(2)]	50	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 excess purchase price over the estimated value of the net tangible and identifiable intangible assets was recorded to goodwill. The preliminary allocation of the 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 acquisition of Rally is not expected to be deductible for tax purposes and is allocated to the Enterprise Solutions segment. The allocation of purchase price to acquired identifiable assets, including intangible assets, is preliminary because the Company has not completed its analysis of the historical tax records for Rally. The goodwill relating to the Company’s other fiscal year 2016 acquisitions is not expected to be deductible for tax purposes and is allocated to the Enterprise Solutions segment.

Transaction costs for the Company’s fiscal year 2016 acquisitions, which are primarily included in “General and administrative” in the Company’s Condensed Consolidated Statements of Operations, were less than $1 million and $20 million for the three and nine months ended December 31, 2015, respectively.

The pro forma effects of the Company’s fiscal year 2016 acquisitions on the Company’s revenues and results of operations during fiscal years 2016 and 2015 were considered immaterial.

The Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2015 included total revenue of $38 million and $63 million, respectively, since the date of acquisition through December 31, 2015 for the Company’s fiscal year 2016 acquisitions of Rally and Xceedium. The Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2015 included net loss of $22 million and $35 million, respectively, since the date of acquisition through December 31, 2015 for the Company’s fiscal year 2016 acquisitions of Rally and Xceedium. Revenues and results of operations since the date of acquisition for the Company’s other fiscal 2016 acquisitions were considered immaterial.

The Company had approximately $5 million and $27 million of accrued acquisition-related costs at December 31, 2015 and March 31, 2015, respectively, related to purchase price amounts withheld subject to indemnification protections.

NOTE C – DIVESTITURES

In the second quarter of fiscal year 2015, the Company sold arcserve for approximately $170 million and recognized a gain on disposal of approximately $20 million, including tax expense of approximately $77 million. The effective tax rate on the disposal was unfavorably affected by non-deductible goodwill of approximately $109 million. In the fourth quarter of fiscal year 2014, the Company identified ERwin as available for sale. The divestiture of arcserve and the planned divestiture of ERwin result from an effort to rationalize the Company’s product portfolio within the Enterprise Solutions segment.

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The income from discontinued operations relating to both ERwin and the sale of arcserve for the three and nine months ended December 31, 2015 and 2014 consisted of the following:

	Three Months Ended December 31,	
(in millions)	2015	2014
Subscription and maintenance	$5	$7
Software fees and other	2	2
Total revenue	$7	$9
Income from operations of discontinued components, net of tax expense of $2 million and $2 million, respectively	$4	$4

	Nine Months Ended December 31,	
(in millions)	2015	2014
Subscription and maintenance	$16	$38
Software fees and other	6	17
Total revenue	$22	$55
Income from operations of discontinued components, net of tax expense of $6 million and $8 million, respectively	$11	$10
Gain on disposal of discontinued component, net of tax	—	20
Income from discontinued operations, net of tax	$11	$30

NOTE D – SEVERANCE AND EXIT COSTS

Fiscal Year 2015 Severance Actions: During the fourth quarter of fiscal year 2015, the Company committed to and initiated severance actions (Fiscal 2015 Severance Actions) to further improve efficiencies in its operations and align its business with strategic objectives and cost savings initiatives. These actions comprised the termination of approximately 690 employees and resulted in a charge of approximately $40 million during the fourth quarter of fiscal year 2015. The Fiscal 2015 Severance Actions were substantially completed by the first quarter of fiscal year 2016.

Fiscal Year 2014 Rebalancing Plan: In fiscal year 2014, the Company's Board of Directors (the Board) approved and committed to a rebalancing plan (Fiscal 2014 Plan) to better align its business priorities. This included a termination of approximately 1,900 employees and global facility consolidations. Costs associated with the Fiscal 2014 Plan are presented in "Other expenses, net" in the Company's Condensed Consolidated Statements of Operations. The total amount incurred under the Fiscal 2014 Plan was approximately $188 million. Severance and facility consolidation actions under the Fiscal 2014 Plan were substantially completed by the end of fiscal year 2014.

Accrued severance and exit costs and changes in the accruals during the nine months ended December 31, 2015 and 2014 were as follows:

(in millions)	Accrued Balance at March 31, 2015	Expense	Change in Estimate	Payments	Accretion and Other	Accrued Balance at December 31, 2015
Severance charges	$28	$—	$(2)	$(22)	$—	$4
Facility exit charges	21	—	—	(3)	—	18
Total accrued liabilities	$49					$22

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

(in millions)	Accrued Balance at March 31, 2014	Expense	Change in Estimate	Payments	Accretion and Other	Accrued Balance at December 31, 2014
Severance charges	$55	$21	$(3)	$(50)	$(1)	$22
Facility exit charges	29	—	—	(7)	(1)	21
Total accrued liabilities	$84					$43

The balance at December 31, 2015 includes a severance accrual of approximately $2 million for plans and actions prior to the Fiscal 2015 Severance Actions.
The severance liabilities are included in “Accrued salaries, wages and commissions” in the Condensed Consolidated Balance Sheets. The facility exit liabilities are included in “Accrued expenses and other current liabilities” and “Other noncurrent liabilities” in the Condensed Consolidated Balance Sheets.
Accretion and other includes accretion of the Company’s lease obligations related to facility exits as well as changes in the assumptions related to future sublease income. These costs are included in “General and administrative” expense in the Condensed Consolidated Statements of Operations.

NOTE E – 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:

	December 31, 2015	March 31, 2015
	(in millions)	
Accounts receivable – billed	$562	$591
Accounts receivable – unbilled	55	63
Other receivables	13	15
Less: Allowances	(12)	(17)
Trade accounts receivable, net	$618	$652

NOTE F – GOODWILL, CAPITALIZED SOFTWARE AND OTHER INTANGIBLE ASSETS
The gross carrying amounts and accumulated amortization for capitalized software and other intangible assets at December 31, 2015 were as follows:

	At December 31, 2015				
	Gross Amortizable Assets	Less: Fully Amortized Assets	Remaining Amortizable Assets	Accumulated Amortization on Remaining Amortizable Assets	Net Assets
	(in millions)				
Purchased software products	$5,987	$4,863	$1,124	$513	$611
Internally developed software products	1,485	994	491	341	150
Other intangible assets	926	608	318	213	105
Total capitalized software and other intangible assets	$8,398	$6,465	$1,933	$1,067	$866

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

The gross carrying amounts and accumulated amortization for capitalized software and other intangible assets at March 31, 2015 were as follows:

	At March 31, 2015				
	Gross Amortizable Assets	Less: Fully Amortized Assets	Remaining Amortizable Assets	Accumulated Amortization on Remaining Amortizable Assets	Net Assets
	(in millions)				
Purchased software products	$5,717	$4,859	$858	$413	$445
Internally developed software products	1,486	835	651	414	237
Other intangible assets	836	556	280	231	49
Total capitalized software and other intangible assets	$8,039	$6,250	$1,789	$1,058	$731

Based on the capitalized software and other intangible assets recorded through December 31, 2015, the projected annual amortization expense for fiscal year 2016 and the next four fiscal years is expected to be as follows:

	Year Ended March 31,				
	2016	2017	2018	2019	2020
	(in millions)				
Purchased software products	$145	$152	$147	$104	$85
Internally developed software products	110	79	37	10	1
Other intangible assets	43	15	8	7	6
Total	$298	$246	$192	$121	$92

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 nine months ended December 31, 2015 was as follows:

(in millions)	Mainframe Solutions	Enterprise Solutions	Services	Total
Balance at March 31, 2015	$4,178	$1,547	$81	$5,806
Acquisitions	—	321	—	321
Foreign currency translation adjustment	—	(4)	—	(4)
Balance at December 31, 2015	$4,178	$1,864	$81	$6,123

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

NOTE G – DEFERRED REVENUE
The current and noncurrent components of “Deferred revenue (billed or collected)” at December 31, 2015 and March 31, 2015 were as follows:

	December 31, 2015	March 31, 2015
	(in millions)	
Current:		
Subscription and maintenance	$1,793	$1,966
Professional services	113	115
Software fees and other	77	33
Total deferred revenue (billed or collected) – current	$1,983	$2,114
Noncurrent:		
Subscription and maintenance	$640	$832
Professional services	24	28
Software fees and other	3	3
Total deferred revenue (billed or collected) – noncurrent	$667	$863
Total deferred revenue (billed or collected)	$2,650	$2,977

NOTE H – DEBT
Term Loan: On October 20, 2015, the Company entered into a Term Loan Agreement with Bank of America, N.A. (Term Loan Agreement). The Term Loan Agreement provides for a $300 million term loan (Term Loan) with a maturity date of April 20, 2022.
From April 1, 2017 through January 1, 2021, the Term Loan Agreement will require quarterly principal amortization payments in an amount equal to 1.25%, and, commencing April 1, 2021 and thereafter, 2.50%, of the stated principal amount of the Term Loan made on the funding date of October 22, 2015. The Company may, at any time on or after October 20, 2016, prepay the outstanding principal amount of the Term Loan in whole or in part without premium or penalty.
The Term Loan will bear interest at a rate dependent on the Company’s credit ratings applicable from time to time and, at the Company’s option, will be calculated according to a base rate or a Eurodollar rate, as the case may be, plus an applicable margin. Depending on the Company’s credit ratings, the applicable margin for any portion of the Term Loan accruing interest based on the base rate ranges from 0.125% to 1.000% and the applicable margin for any portion of the Term Loan accruing interest based on the Eurodollar rate ranges from 1.125% to 2.000%. At the Company’s current credit ratings, the applicable margin would be 0.500% for interest at the base rate and 1.500% for interest at the Eurodollar rate.
The Term Loan Agreement provides that the Company may use the proceeds of the Term Loan for general corporate purposes of the Company and its subsidiaries, which may include, but is not limited to, share repurchases, acquisitions and the refinancing of existing indebtedness. The Term Loan Agreement also contains covenants and events of default consistent with the Company’s revolving credit facility.
Senior Notes: In August 2015, the Company issued $400 million of 3.600% Senior Notes due August 2020 (3.600% Notes) for proceeds of approximately $400 million, reflecting a discount of less than $1 million. The 3.600% Notes are senior unsecured obligations that rank equally in right of payment with all of the Company’s existing and future unsecured and unsubordinated obligations and are redeemable by the Company at any time, subject to a “make-whole” premium of 30 basis points. Interest on the 3.600% Notes is payable semiannually in February and August, beginning February 2016. In the event of a change of control, each note holder will have the right to require the Company to repurchase all or any part of the holder’s 3.600% Notes in cash at a price equal to 101% of the principal amount of such 3.600% Notes plus accrued and unpaid interest, if any, to the date of repurchase. This is subject to the right of holders of record on the relevant interest payment date to receive interest due. The 3.600% Notes contain customary

covenants and events of default. The maturity of the 3.600% Notes may be accelerated by holders upon certain events of default, including failure to make payments when due and failure to comply with covenants.

The Company capitalized transaction costs of approximately $3 million associated with the 3.600% Notes and will amortize these costs to “Interest expense, net” in the Company's Condensed Consolidated Statements of Operations.

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Revolving Credit Facility: In April 2015, the Company amended its revolving credit facility to extend the termination date from June 2018 to June 2019. The maximum committed amount available under the revolving credit facility is $1 billion. The facility also provides the Company with an option to increase the available credit by an amount up to $500 million. This option is subject to certain conditions and the agreement of the facility lenders. The Company capitalized transaction costs of less than $1 million associated with the April 2015 amendment of the revolving credit facility. These fees are being amortized to "Interest expense, net" in the Company's Condensed Consolidated Statements of Operations.

In July 2015 and in connection with the acquisition of Rally, the Company borrowed $400 million under its revolving credit facility. The interest rate applicable to the Company at the time of borrowing under the revolving credit facility was approximately 1.19%. In August 2015, the Company repaid the $400 million borrowing under its revolving credit facility with proceeds received from the Company's issuance of the 3.600% Notes described above. Interest expense in connection with the borrowing under the revolving credit facility was less than $1 million for the nine months ended December 31, 2015.

At December 31, 2015 and March 31, 2015, there were no outstanding borrowings under the revolving credit facility.

For additional information concerning the Company's debt obligations, refer to the Company's Consolidated Financial Statements and Notes thereto included in the Company's 2015 Form 10-K.

NOTE I – 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.

Interest Rate Swaps: At December 31, 2015 and March 31, 2015, the Company had no interest rate swap derivatives outstanding.

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 December 31, 2015, foreign currency contracts outstanding consisted of purchase and sale contracts with a total gross notional value of approximately $1,128 million and durations of less than three months. The net fair value of these contracts at December 31, 2015 was a net asset of approximately $10 million, of which approximately $16 million is included in "Other current assets" and approximately $6 million is included in "Accrued expenses and other current liabilities" in the Company's Condensed Consolidated Balance Sheet.

At March 31, 2015, foreign currency contracts outstanding consisted of purchase and sale contracts with a total gross notional value of approximately $298 million and durations of less than three months. The net fair value of these contracts at March 31, 2015 was a net asset of approximately $2 million, of which approximately $5 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 interest rate and 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 December 31,		Nine Months Ended December 31,	
(in millions)	2015	2014	2015	2014
Interest expense, net – interest rate swaps designated as fair value hedges	$—	$(2)	$—	$(8)

Other expenses, net – foreign currency contracts	$(3)	$(10)	$—	$(22)

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 December 31, 2015 and March 31, 2015. The Company posted no collateral at December 31, 2015 or March 31, 2015. 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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NOTE J – FAIR VALUE MEASUREMENTS
The following table presents the Company's assets and liabilities that were measured at fair value on a recurring basis at December 31, 2015 and March 31, 2015:

(in millions)	At December 31, 2015 Fair Value Measurement Using Input Types Level 1	Level 2	Estimated Fair Value Total	At March 31, 2015 Fair Value Measurement Using Input Types Level 1	Level 2	Estimated Fair Value Total
Assets:						
Money market funds (1)	$593	$—	$593	$749	$—	$749
Foreign exchange derivatives (2)	—	16	16	—	5	5
Total assets	$593	$16	$609	$749	$5	$754
Liabilities:						
Foreign exchange derivatives (2)	$—	$6	$6	$—	$3	$3
Total liabilities	$—	$6	$6	$—	$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) See Note I, "Derivatives" for additional information.

At December 31, 2015 and March 31, 2015, 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 December 31, 2015 and March 31, 2015:

(in millions)	At December 31, 2015 Carrying Value	Estimated Fair Value	At March 31, 2015 Carrying Value	Estimated Fair Value
Liabilities:				
Total debt (1)	$1,964	$2,041	$1,263	$1,376
Facility exit reserve (2)	$18	$20	$21	$23

(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 December 31, 2015 and March 31, 2015. At December 31, 2015 and March 31, 2015, the facility exit reserve included approximately $4 million and $4 million, respectively, in "Accrued expenses and other current liabilities" and approximately $14 million and $17 million, respectively, in "Other noncurrent liabilities" in the Company's Condensed Consolidated Balance Sheets (Level 3).

NOTE K – 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 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.

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. 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 $35 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.

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NOTE L – STOCKHOLDERS' EQUITY
Stock Repurchases: On May 14, 2014, the Board approved a stock repurchase program that authorized the Company to acquire up to $1 billion of its common stock.
In November 2015, the Company entered into and closed on an arrangement with Careal Holding AG (Careal) to repurchase 22 million shares of its common stock in a private transaction. The transaction was valued with an effective share repurchase price of $26.81 per share, which represented a 3% discount to the 10-trading day volume weighted average price of the Company's common stock using a reference date of November 5, 2015. The Company's payment to Careal upon closing was reduced by $0.25 per share to account for the Company's dividend that was paid on December 8, 2015 to stockholders of record on November 19, 2015. As a result of the share repurchase and dividend payment, in total the Company paid Careal approximately $590 million during the third quarter of fiscal year 2016 in connection with the 22 million shares repurchased. The transaction was funded with U.S. cash on hand and effectively concludes CA's prior $1 billion stock repurchase program approved by the Board on May 14, 2014.
Including the November 2015 share repurchase arrangement with Careal, the Company repurchased approximately 26 million shares of its common stock for approximately $707 million during the nine months ended December 31, 2015.
Prior to entering into and closing on the share repurchase arrangement, Careal held approximately 28.7% of the Company's total outstanding stock. In connection with the share repurchase arrangement, Careal transferred an additional 37 million shares of the Company's common stock to an entity wholly owned by Martin Haefner, a 50% owner of Careal. Upon completion of the share repurchase arrangement and the share transfer described above, Careal's and Martin Haefner's ownership interests are approximately 16.0% and 8.9%, respectively, of the Company's total outstanding common stock. Thus, Careal and its shareholders collectively own, directly and indirectly, approximately 24.9% of the Company's total outstanding common stock.
In connection with the share repurchase arrangement with Careal, the Company agreed that it will indemnify Careal for certain potential tax matters resulting solely from the Company's breach of the covenant relating to the post-closing holding of the repurchased shares under this arrangement. The Company believes that the occurrence of an event that could trigger the indemnification is within its control and is remote. Therefore, the Company has not recorded a liability related to such indemnification. The maximum potential future payment under this indemnification, excluding interest and penalties, if any, is estimated to be approximately CHF 101 million (which translated to approximately $101 million at December 31, 2015). Any changes to the Company's assessment of the probability of the occurrence of an event that could trigger the indemnification provision may result in the Company recording a liability in the future, which would impact the results of operations for that period.
On November 13, 2015, the Board approved a new stock repurchase program that authorized the Company to acquire up to $750 million of its common stock, which remained fully outstanding at December 31, 2015.
Accumulated Other Comprehensive Loss: Foreign currency translation losses included in "Accumulated other comprehensive loss" in the Company's Condensed Consolidated Balance Sheets at December 31, 2015 and March 31, 2015 were approximately $469 million and $418 million, respectively.
Cash Dividends: The Board declared the following dividends during the nine months ended December 31, 2015 and 2014:
Nine Months Ended December 31, 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
November 5, 2015	$0.25	November 19, 2015	$105	December 8, 2015

Nine Months Ended December 31, 2014:
(in millions, except per share amounts)

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
May 15, 2014	$0.25	May 29, 2014	$111	June 17