CA, INC.
Form 10-Q
January 31, 2018
Table of Contents

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, 2017
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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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	¨
Emerging growth company	¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 24, 2018
par value $0.10 per share	416,924,204

Table of Contents

CA, INC. AND SUBSIDIARIES
INDEX

Table of Contents

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, 2017, and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended December 31, 2017 and 2016, and the related condensed consolidated statements of cash flows for the nine-month periods ended December 31, 2017 and 2016. 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, 2017, 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, 2017, 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, 2017 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 31, 2018

Table of Contents

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2017 (unaudited)	March 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 2,971	$ 2,771
Trade accounts receivable, net of allowance for doubtful accounts of $11 and $11, respectively	719	764
Other current assets	136	198
Total current assets	$ 3,826	$ 3,733
Property and equipment, net of accumulated depreciation of $860 and $841, respectively	230	237
Goodwill	6,799	6,857
Capitalized software and other intangible assets, net	1,176	1,307
Deferred income taxes	346	327
Other noncurrent assets, net	156	149
Total assets	$ 12,533	$ 12,610
Liabilities and stockholders’ equity		
Current liabilities:		
Current portion of long-term debt	$ 269	$ 18
Accounts payable	69	91
Accrued salaries, wages and commissions	219	256
Accrued expenses and other current liabilities	350	326
Deferred revenue (billed or collected)	2,095	2,222
Taxes payable, other than income taxes payable	79	63
Federal, state and foreign income taxes payable	9	30
Total current liabilities	$ 3,090	$ 3,006
Long-term debt, net of current portion	2,518	2,773
Federal, state and foreign income taxes payable	335	131
Deferred income taxes	118	119
Deferred revenue (billed or collected)	655	794
Other noncurrent liabilities	94	98
Total liabilities	$ 6,810	$ 6,921
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; 412,196,271 and 413,409,346 shares outstanding, respectively	59	59
Additional paid-in capital	3,715	3,702
Retained earnings	6,871	6,923
Accumulated other comprehensive loss	(342)	(483)
Treasury stock, at cost, 177,498,810 and 176,285,735 shares, respectively	(4,580)	(4,512)
Total stockholders’ equity	$ 5,723	$ 5,689
Total liabilities and stockholders’ equity	$ 12,533	$ 12,610

See accompanying Notes to the Condensed Consolidated Financial Statements

2

Table of Contents

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,	
	2017	2016	2017	2016
Revenue:				
Subscription and maintenance	$843	$817	$2,486	$2,467
Professional services	80	72	230	224
Software fees and other	170	118	436	333
Total revenue	$1,093	$1,007	$3,152	$3,024
Expenses:				
Costs of licensing and maintenance	$79	$68	$223	$202
Cost of professional services	76	74	223	222
Amortization of capitalized software costs	68	57	205	182
Selling and marketing	288	270	778	747
General and administrative	95	85	299	257
Product development and enhancements	157	144	476	428
Depreciation and amortization of other intangible assets	26	18	79	56
Other (gains) expenses, net	(3)	(17)	17	10
Total expenses before interest and income taxes	$786	$699	$2,300	$2,104
Income before interest and income taxes	$307	$308	$852	$920
Interest expense, net	25	16	74	45
Income before income taxes	$282	$292	$778	$875
Income tax expense	375	84	509	257
Net (loss) income	$(93)	$208	$269	$618
Basic (loss) income per common share	$(0.23)	$0.50	$0.64	$1.48
Basic weighted average shares used in computation	413	413	414	414
Diluted (loss) income per common share	$(0.23)	$0.50	$0.64	$1.47
Diluted weighted average shares used in computation	413	414	415	415

See accompanying Notes to the Condensed Consolidated Financial Statements

Table of Contents

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,	
	2017	2016	2017	2016
Net (loss) income	$(93)	$208	$269	$618
Other comprehensive income (loss):				
Foreign currency translation adjustments	9	(83)	141	(102)
Total other comprehensive income (loss)	$9	$(83)	$141	$(102)
Comprehensive (loss) income	$(84)	$125	$410	$516

See accompanying Notes to the Condensed Consolidated Financial Statements

Table of Contents

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

	For the Nine Months Ended December 31,	
	2017	2016
Operating activities:		
Net income	$269	$618
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	284	238
Deferred income taxes	41	(20)
Provision for bad debts	1	3
Share-based compensation expense	89	80
Other non-cash items	3	4
Foreign currency transaction losses (gains)	3	(5)
Changes in other operating assets and liabilities, net of effect of acquisitions:		
Decrease in trade accounts receivable	58	57
Decrease in deferred revenue	(334)	(332)
Increase (decrease) in taxes payable, net	220	(21)
Increase in accounts payable, accrued expenses and other	20	13
Decrease in accrued salaries, wages and commissions	(44)	(12)
Changes in other operating assets and liabilities, net	40	35
Net cash provided by operating activities	$650	$658
Investing activities:		
Acquisitions of businesses, net of cash acquired, and purchased software	$(15)	$(48)
Purchases of property and equipment	(34)	(30)
Other investing activities	(2)	(1)
Net cash used in investing activities	$(51)	$(79)
Financing activities:		
Dividends paid	$(321)	$(321)
Purchases of common stock	(143)	(100)
Notional pooling borrowings	1,581	1,391
Notional pooling repayments	(1,612)	(1,365)
Debt repayments	(14)	(5)
Debt issuance costs	(3)	—
Exercise of common stock options	5	22
Payments related to tax withholding for share-based compensation	(35)	(34)
Other financing activities	(3)	—
Net cash used in financing activities	$(545)	$(412)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	148	(151)
Increase in cash, cash equivalents and restricted cash	$202	$16
Cash, cash equivalents and restricted cash at beginning of period	2,772	2,813
Cash, cash equivalents and restricted cash at end of period	$2,974	$2,829

See accompanying Notes to the Condensed Consolidated Financial Statements

Table of Contents
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 (Condensed Consolidated Financial Statements) of CA, Inc. and its subsidiaries (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 Form 10-Q and Article 10 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 and therefore should be read in conjunction with 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, 2017 (2017 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, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2018.
Cash, Cash Equivalents and Restricted Cash: The Company's cash and cash equivalents are held in numerous locations throughout the world, with approximately 66% being held by the Company's foreign subsidiaries outside the United States at December 31, 2017.
At December 31, 2017 and March 31, 2017, the total amount of restricted cash included in "Other noncurrent assets, net" in the Company's Condensed Consolidated Balance Sheets was approximately $3 million and $1 million, respectively. Restricted cash was included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown in the Company's Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2017 and 2016.
New Accounting Pronouncements:
New Accounting Pronouncements Recently Adopted
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 statements of cash flows. ASU 2016-09 was adopted by the Company when effective in the first quarter of fiscal year 2018. The adoption of ASU 2016-09 resulted in the presentation of cash flows for employee taxes paid by withholding shares of restricted stock as a financing activity within the Condensed Consolidated Statements of Cash Flows, which were previously presented as an operating activity. A retrospective method of adoption was required for this change, which resulted in the reclassification of cash outflows of approximately $34 million from operating activities to financing activities within the Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2016. Although not material, ASU 2016-09 also requires that excess tax benefits on share-based compensation expense be recognized in the Condensed Consolidated Statements of Operations as a component of the provision for income taxes, rather than additional paid-in capital, on a prospective basis. As permitted by ASU 2016-09, although not material, the Company elected to retrospectively reclassify cash flows related to excess tax benefits on share-based compensation expense as an operating activity within the Condensed Consolidated Statements of Cash Flows, which were previously presented as a financing activity. In addition, as permitted by ASU 2016-09, the Company elected to continue to estimate forfeitures expected to occur to determine the amount of share-based compensation expense to be recognized in each period.
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 classified and presented in the statements of cash flows. In November 2016, the FASB issued Accounting Standards Update No. 2016-18 (ASU 2016-18), Restricted Cash (Topic 230), which is intended to reduce diversity in practice on how changes in restricted cash are classified and presented in the statements of cash flows. ASU 2016-18 requires amounts generally described as restricted cash to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The Company elected to early adopt both ASU 2016-15 and ASU 2016-18 in the first quarter of fiscal year 2018 using the retrospective transition method of adoption. The adoption of these standards did not have a material effect on the Company's consolidated financial statements and related disclosures.

New Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, with amendments in 2015, 2016 and 2017, which creates new ASC Topic 606 (Topic 606) that will replace most existing revenue recognition guidance in GAAP when it becomes effective. 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. Topic 606 may be applied retrospectively to each prior period presented (full retrospective method) or with the cumulative effect recognized as of the date of initial application (modified retrospective method). The Company has established a cross-functional implementation team consisting of representatives across the organization and a third-party service provider to develop a project plan, including the evaluation of customer contracts across the organization, the development of policies, processes and tools to report financial results, the consideration of new performance measurements, and the implementation and evaluation of the Company’s internal controls over financial reporting that will be necessary under the new standard. The Company currently plans to adopt Topic 606 in the first quarter of fiscal year 2019 using the modified retrospective method.

While the Company is continuing to determine the full effect of the new standard, it currently anticipates that this standard will have a material effect on its consolidated financial statements and related disclosures, and currently believes the most significant effect relates to the timing of the recognition of its software license revenue. Specifically, under the new standard, the Company currently expects to recognize license revenue for its Mainframe Solutions and Enterprise Solutions products at the point-in-time the licensed software is transferred to the customer, rather than ratably over the term of the customer contract as required by existing GAAP for most of the Company’s software arrangements. As a result, a significant portion of the Company’s revenue backlog (i.e., deferred revenue and future billings on committed contracts) relating to the license component of customer contracts at March 31, 2018 under existing GAAP will not be recognized as revenue in future periods but instead will be included as part of the cumulative effect adjustment within retained earnings upon adoption of Topic 606. Such cumulative effect adjustment will primarily result from (i) the significant reduction in deferred revenue relating to the license component of customer contracts as mentioned above, (ii) the establishment of a significant contract asset related to the Company’s contractual right to consideration for completed performance obligations not yet billed or collected (i.e., license revenue recognized in advance of billings), (iii) the increase in deferred tax liabilities arising from the increase in contract assets, and (iv) the increase in income taxes payable from both the increase in contract assets as a result of the Tax Cuts and Jobs Act enacted on December 22, 2017 (the “Tax Act”) and the portion of deferred revenue included in the cumulative effect adjustment that has not been previously included as taxable income on a tax return. The increase in contract assets and decrease in deferred revenue, when taken together with those provisions of the Tax Act which affect tax method revenue recognition for accrual-method U.S. taxpayers, will result in an acceleration of the timing of the Company’s income tax payments. This acceleration of the timing of income tax payments will be significant in relation to the Company’s current annual income tax payments within cash flows from operations. While the Company has not finalized its assessment of the impact arising from the Topic 606 adoption and finalization of the assessment could result in revisions to these estimates, which could be material, the Company currently estimates additional income tax payments in the range of approximately $100 million to $150 million per year over a four-year period, beginning in fiscal year 2019. The Company currently expects these additional income tax payments will be largely offset by the benefit from the reduced U.S. corporate tax rate enacted by the Tax Act. The Company believes that taken together, the incremental income tax payments resulting from the Topic 606 adoption and enactment of the Tax Act will be approximately $25 million to $50 million, on average, per year for the next four years, beginning in fiscal year 2019. Although the Company continues to evaluate the items listed above, it does not currently expect Topic 606 to have a significant effect on its customer billings and cash collections from customer billings.

The Company currently believes that the point-in-time recognition requirement of the new standard will increase the variability of its revenue and overall net income period-to-period. The Company does not currently expect Topic 606 will have a significant effect on the timing of revenue recognition for its maintenance, Software-as-a-Service and professional services contracts. However, under Topic 606, more judgment and estimates will be required within the revenue recognition process than are required under existing GAAP, including estimates of the standalone selling price for each performance obligation identified within the Company's contracts. These judgments and estimates will also impact the proportion of a contract's value that is reported as license, maintenance and other elements, and the amounts assigned to the Company's reportable segments.

Topic 606 will also require the Company to capitalize a portion of its sales commissions and other incremental costs to acquire contracts (i.e., contract costs), which are currently expensed as incurred. Upon adoption of Topic 606, the capitalization of contract costs will be included as part of the cumulative effect adjustment within retained earnings. The Company currently anticipates it will amortize these capitalized contract costs over an expected period of benefit ranging from approximately four to seven years. The Company is currently evaluating the effect of this requirement on its consolidated financial statements and related disclosures.

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

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 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 timing of adoption and the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures, the Company currently 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 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 fiscal year. The Company does not currently expect the adoption of ASU 2016-16 to have a material effect on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04 (ASU 2017-04), Simplifying the Test for Goodwill Impairment (Topic 350), which is intended to simplify the subsequent measurement of goodwill. ASU 2017-04 eliminates Step 2 of the goodwill impairment test requiring the assessment of fair value of individual assets and liabilities of a reporting unit to measure goodwill impairments. Upon adoption of this new standard, goodwill impairments will be the amount by which a reporting unit's carrying value exceeds its fair value. ASU 2017-04 will be effective for the Company’s first quarter of fiscal year 2021 and requires a prospective method of adoption. Early adoption is permitted. The Company is currently evaluating the timing of adoption and the effect that ASU 2017-04 will have on its consolidated financial statements and related disclosures.

In August 2017, the FASB issued Accounting Standards Update No. 2017-12 (ASU 2017-12), Targeted Improvements to Accounting for Hedging Activities (Topic 815), which is intended to improve the financial reporting of hedging relationships to better portray the economic results of risk management activities in financial statements. ASU 2017-12 makes certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. ASU 2017-12 will be effective for the Company’s first quarter of fiscal year 2020 and requires a prospective method of adoption for the amended presentation and disclosure guidance. Early adoption is permitted. The Company is currently evaluating the timing of adoption and the effect that ASU 2017-12 will have on its consolidated financial statements and related disclosures.

NOTE B – ACQUISITIONS

In the fourth quarter of fiscal year 2017, the Company acquired Automic Holding GmbH (Automic) and Veracode, Inc. (Veracode). The results of operations of Automic and Veracode are reported predominantly in the Company’s Enterprise Solutions segment. The purchase price allocation for Automic and Veracode is provided within the table below.

(dollars in millions)	Automic	Veracode	Estimated Useful Life
Finite-lived intangible assets (1)	$ 174	$ 99	2-12 years
Purchased software	273	240	1-8 years
Goodwill	303	339	Indefinite

Deferred tax liabilities, net	(92)	(36)	—
Other assets (liabilities), net [2]	17	(24)	—
Purchase price	$ 675	$ 618	

(1) Includes customer relationships and trade names.
(2) Includes approximately $34 million and $16 million of cash acquired from Automic and Veracode, respectively.

8

Table of Contents

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

The excess purchase price over the estimated value of the net tangible and identifiable intangible assets was recorded to goodwill. The 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 acquisitions of Automic and Veracode is not expected to be deductible for tax purposes and is allocated to the Enterprise Solutions segment. The purchase price allocation for Automic was finalized during the third quarter of fiscal year 2018. During the third quarter of fiscal year 2018, the Company recorded $72 million of additional deferred tax assets relating to Veracode based on further review of their historical tax records. The Company expects to complete its analysis of Veracode's historical tax records and finalize the purchase price allocation for Veracode in the fourth quarter of fiscal year 2018.

The Condensed Consolidated Statement of Operations for the three and nine months ended December 31, 2017 included total revenue of approximately $68 million and $182 million, respectively, and net loss of approximately $16 million and $53 million, respectively, from Automic and Veracode.

The unaudited pro forma combined financial information in the table below summarizes the results of operations for the Company, Automic and Veracode as though the companies were combined as of the beginning of fiscal year 2017. The pro forma financial information presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of fiscal year 2017, nor does it attempt to represent the results of future operations of the combined entities under the ownership and operation of the Company. The pro forma results of operations also do not include any cost savings or other synergies that may result from these acquisitions or any estimated costs that have been or will be incurred by the Company to integrate the acquired assets.

The pro forma results below were based on estimates and assumptions, which the Company believes are reasonable. The pro forma financial information for all periods presented also includes the business combination accounting effects resulting from these acquisitions, including the amortization charges from acquired intangible assets and other purchase accounting adjustments, employee retention costs and the related tax effects as though the Company, Automic and Veracode were combined as of the beginning of fiscal year 2017.

	Three Months Ended December 31, 2016	Nine Months Ended December 31, 2016
(in millions, except per share amounts)	unaudited	
Total revenue	$1,061	$ 3,178
Net income	$181	$ 527
Basic income per common share	$0.43	$ 1.26
Diluted income per common share	$0.43	$ 1.25

The pro forma effects of the Company's other fiscal year 2017 acquisitions on the Company's revenues and results of operations during the three and nine months ended December 31, 2016 were immaterial.

The Company had approximately $11 million and $12 million of accrued acquisition-related costs at December 31, 2017 and March 31, 2017, respectively, related to purchase price amounts withheld subject to indemnification protections.

NOTE C – GOODWILL, CAPITALIZED SOFTWARE AND OTHER INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization for capitalized software and other intangible assets at December 31, 2017 were as follows:

At December 31, 2017

	Gross Amortizable Assets	Less: Fully Amortized Assets	Remaining Amortizable Assets	Accumulated Amortization on Remaining Amortizable Assets	Net Assets
	(in millions)				
Purchased software products	$6,565	$ 4,910	$ 1,655	$ 837	$818
Internally developed software products	1,467	1,347	120	103	17
Other intangible assets	1,222	823	399	58	341
Total capitalized software and other intangible assets	$9,254	$ 7,080	$ 2,174	$ 998	$1,176

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, 2017 were as follows:

	At March 31, 2017				
	Gross Amortizable Assets	Less: Fully Amortized Assets	Remaining Amortizable Assets	Accumulated Amortization on Remaining Amortizable Assets	Net Assets
	(in millions)				
Purchased software products	$6,496	$ 4,914	$ 1,582	$ 667	$915
Internally developed software products	1,467	1,029	438	391	47
Other intangible assets	1,193	812	381	36	345
Total capitalized software and other intangible assets	$9,156	$ 6,755	$ 2,401	$ 1,094	$1,307

Based on the capitalized software and other intangible assets recorded through December 31, 2017, the projected annual amortization expense for fiscal year 2018 and the next four fiscal years is expected to be as follows:

	Year Ended March 31,				
	2018	2019	2020	2021	2022
	(in millions)				
Purchased software products	$236	$185	$162	$118	$109
Internally developed software products	37	9	1	—	—
Other intangible assets	42	40	37	37	36
Total	$315	$234	$200	$155	$145

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, 2017 was as follows:

(in millions)	Mainframe Solutions	Enterprise Solutions	Services	Total
Balance at March 31, 2017	$ 4,178	$ 2,598	$ 81	$6,857
Acquisitions [1]	—	(99)	—	(99)
Foreign currency translation adjustment	—	41	—	41
Balance at December 31, 2017	$ 4,178	$ 2,540	$ 81	$6,799

(1) Acquisitions amount relates to purchase price allocation adjustments that occurred during the nine months ended December 31, 2017.

NOTE D – DEFERRED REVENUE

The current and noncurrent components of "Deferred revenue (billed or collected)" at December 31, 2017 and March 31, 2017 were as follows:

	December 31, 2017	March 31, 2017
	(in millions)	
Current:		
Subscription and maintenance	$1,773	$ 1,948
Professional services	138	135
Software fees and other	184	139
Total deferred revenue (billed or collected) – current	$2,095	$ 2,222
Noncurrent:		
Subscription and maintenance	$631	$ 769
Professional services	17	19
Software fees and other	7	6
Total deferred revenue (billed or collected) – noncurrent	$655	$ 794
Total deferred revenue (billed or collected)	$2,750	$ 3,016

NOTE E – 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 balance sheet and forecasted transaction foreign currency risks. The Company has not designated its foreign exchange derivatives as hedges for accounting purposes. The Company's foreign currency derivative trading strategy is to economically hedge a majority of its material exposures due to forecasted and actual intercompany cash flows, such as royalties and development costs. The Company also economically hedges its material receivable, payable and cash balances held in non-functional currencies. The Company's foreign currency contracts are generally short-term in duration. Principal currencies hedged include the euro, the British pound sterling, the Australian dollar, the Brazilian real, the Japanese yen, the Canadian dollar, the Israeli shekel, the Indian rupee and the Czech koruna. Changes in fair value from these contracts are recorded as "Other (gains) expenses, net" in the Company's Condensed Consolidated Statements of Operations.

At December 31, 2017, foreign currency contracts outstanding consisted of purchase and sale contracts with a total gross notional value of approximately $825 million and durations of less than three months. The net fair value of these contracts at December 31, 2017 was a net liability of approximately $4 million, of which approximately $8 million is included in "Other current assets" and approximately $12 million is included in "Accrued expenses and other current liabilities" in the Company's Condensed Consolidated Balance Sheet.

At March 31, 2017, foreign currency contracts outstanding consisted of purchase and sale contracts with a total gross notional value of approximately $336 million and durations of less than three months. The net fair value of these contracts at March 31, 2017 was a net asset of approximately $1 million, of which approximately $2 million is included in "Other current assets" and approximately $1 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 December 31,		Nine Months Ended December 31,	
(in millions)	2017	2016	2017	2016
Other (gains) expenses, net – foreign currency contracts	$ —	$ (9)	$ 8	$ (3)

11

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

The Company is subject to collateral security arrangements with most of its major counterparties. The Company posted no collateral at December 31, 2017 or March 31, 2017. 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.

NOTE F – 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, 2017 and March 31, 2017:

	At December 31, 2017			At March 31, 2017		
	Fair Value Measurement Using Input Types		Estimated Fair Value	Fair Value Measurement Using Input Types		Estimated Fair Value
(in millions)	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Money market funds (1)	$1,063	$ —	$ 1,063	$1,077	$ —	$ 1,077
Foreign exchange derivatives (2)	—	8	8	—	2	2
Total assets	$1,063	$ 8	$ 1,071	$1,077	$ 2	$ 1,079
Liabilities:						
Foreign exchange derivatives (2)	$—	$ 12	$ 12	$—	$ 1	$ 1
Total liabilities	$—	$ 12	$ 12	$—	$ 1	$ 1

(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 E, "Derivatives" for additional information.

At December 31, 2017 and March 31, 2017, 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, 2017 and March 31, 2017:

	At December 31, 2017		At March 31, 2017	
(in millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Liabilities:				
Total debt (1)	$2,787	$ 2,874	$2,791	$ 2,903
Facility exit reserves (2)	$8	$ 9	$11	$ 12

(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 reserves is determined using the Company's incremental borrowing rate at December 31, 2017 and March 31, 2017. At December 31, 2017 and March 31, 2017, the facility exit reserves included carrying values of approximately $2 million and $3 million, respectively, in "Accrued expenses and other current liabilities" and approximately $6 million and $8 million, respectively, in "Other noncurrent liabilities" in the Company's Condensed Consolidated Balance Sheets (Level 3).

NOTE G – COMMITMENTS AND CONTINGENCIES

The Company has been or, from time to time, may be named as a defendant in various lawsuits and claims arising in the normal course of business. The Company may also become involved in contract issues and disputes with customers, including government customers.

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 any 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 its 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 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 does not exceed $20 million. This is in addition to any amounts that have been accrued.

NOTE H – STOCKHOLDERS' EQUITY

Stock Repurchases: On November 13, 2015, the Board of Directors (Board) approved a stock repurchase program that authorized the Company to acquire up to $750 million of its common stock. During the nine months ended December 31, 2017, the Company repurchased approximately 4.4 million shares of its common stock for approximately $143 million. At December 31, 2017, the Company remained authorized to purchase approximately $507 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 December 31, 2017 and March 31, 2017 were approximately $342 million and $483 million, respectively.

Cash Dividends: The Board declared the following dividends during the