

CA, INC.
Form 10-Q
November 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018
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 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 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

Emerging growth company

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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

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

Title of Class	Shares Outstanding
Common Stock	as of October 31, 2018
par value \$0.10 per share	418,222,273

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PART I. FINANCIAL INFORMATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

CA, Inc.:

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated balance sheet of CA, Inc. and subsidiaries as of September 30, 2018, the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended September 30, 2018 and 2017, the related condensed consolidated statements of cash flows for the six-month periods ended September 30, 2018 and 2017, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it 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) (“PCAOB”), the consolidated balance sheet of the Company as of March 31, 2018, 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 9, 2018, 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, 2018, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This consolidated interim financial information is the responsibility of the Company’s management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with the standards of the PCAOB. A review of consolidated 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 PCAOB, 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.

/s/ KPMG LLP

New York, New York

November 7, 2018

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Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2018	March 31, 2018
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,931	\$ 3,405
Trade accounts receivable, net of allowance for doubtful accounts of \$9 and \$10, respectively	507	793
Contract assets	817	—
Other current assets	107	210
Total current assets	\$ 4,362	\$ 4,408
Property and equipment, net of accumulated depreciation of \$822 and \$865, respectively	213	237
Goodwill	6,790	6,804
Capitalized software and other intangible assets, net	981	1,111
Deferred income taxes	124	346
Contract assets	112	—
Contract costs	400	—
Other noncurrent assets, net	121	154
Total assets	\$ 13,103	\$ 13,060
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 20	\$ 269
Accounts payable	81	85
Accrued salaries, wages and commissions	201	242
Accrued expenses and other current liabilities	309	340
Deferred revenue and advanced payments	1,002	2,289
Taxes payable, other than income taxes payable	25	55
Federal, state and foreign income taxes payable	72	41
Total current liabilities	\$ 1,710	\$ 3,321
Long-term debt, net of current portion	2,506	2,514
Federal, state and foreign income taxes payable	297	311
Deferred income taxes	171	111
Deferred revenue and advanced payments	419	820
Other noncurrent liabilities	98	88
Total liabilities	\$ 5,201	\$ 7,165
Stockholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized; No shares issued and outstanding	\$ —	\$ —
Common stock, \$0.10 par value, 1,100,000,000 shares authorized; 589,695,081 and 589,695,081 shares issued; 413,476,935 and 412,056,923 shares outstanding, respectively	59	59
Additional paid-in capital	3,735	3,744
Retained earnings	9,156	6,971
Accumulated other comprehensive loss	(463) (290)
Treasury stock, at cost, 176,218,146 and 177,638,158 shares, respectively	(4,585) (4,589)

Total stockholders' equity	\$ 7,902	\$ 5,895
Total liabilities and stockholders' equity	\$ 13,103	\$ 13,060

Effective April 1, 2018, the Company adopted Topic 606 utilizing the modified retrospective method. As a result, the financial statements are not comparable to the prior period presented. See accompanying Notes to the Condensed Consolidated Financial Statements for details.

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

	For the Three		For the Six	
	Months		Months	
	Ended	Ended	Ended	Ended
	September	September	September 30,	September 30,
	30,	30,	2018	2017
	2018	2017	2018	2017
Revenue:				
Software licenses and maintenance	\$824	\$959	\$1,694	\$1,909
Professional services	71	75	139	150
Total revenue	\$895	\$1,034	\$1,833	\$2,059
Expenses:				
Costs of licensing and maintenance	\$74	\$73	\$150	\$144
Cost of professional services	64	74	134	147
Amortization of capitalized software costs	49	67	109	137
Selling and marketing	252	244	487	490
General and administrative	99	97	203	204
Product development and enhancements	158	161	320	319
Depreciation and amortization of other intangible assets	28	27	54	53
Other expenses, net	4	9	107	20
Total expenses before interest and income taxes	\$728	\$752	\$1,564	\$1,514
Income before interest and income taxes	\$167	\$282	\$269	\$545
Interest expense, net	19	24	39	49
Income before income taxes	\$148	\$258	\$230	\$496
Income tax expense (benefit)	19	74	(65)	134
Net income	\$129	\$184	\$295	\$362
Basic income per common share	\$0.31	\$0.44	\$0.70	\$0.86
Basic weighted average shares used in computation	413	415	414	415
Diluted income per common share	\$0.31	\$0.44	\$0.70	\$0.86
Diluted weighted average shares used in computation	416	416	416	416

Effective April 1, 2018, the Company adopted Topic 606 utilizing the modified retrospective method. As a result, the financial statements are not comparable to the prior period presented. See accompanying Notes to the Condensed Consolidated Financial Statements for details.

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CA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(in millions)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$129	\$184	\$295	\$362
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(23)	48	(164)	132
Total other comprehensive (loss) income	\$(23)	\$48	\$(164)	\$132
Comprehensive income	\$106	\$232	\$131	\$494

Effective April 1, 2018, the Company adopted Topic 606 utilizing the modified retrospective method. As a result, the financial statements are not comparable to the prior period presented. See accompanying Notes to the Condensed Consolidated Financial Statements for details.

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

	For the Six Months Ended September 30,	
	2018	2017
Operating activities:		
Net income	\$295	\$362
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	163	190
Deferred income taxes	(12)	(23)
Provision for bad debts	—	2
Share-based compensation expense	68	61
Other non-cash items	5	2
Foreign currency transaction (gains) losses	(4)	9
Changes in other operating assets and liabilities, net of effect of acquisitions:		
Decrease in trade accounts receivable	279	317
Increase in contract assets	(26)	—
Decrease in contract costs	18	—
Decrease in deferred revenue and advanced payments	(314)	(460)
Decrease in taxes payable, net	(258)	(58)
Increase in accounts payable, accrued expenses and other	33	11
Decrease in accrued salaries, wages and commissions	(34)	(81)
Changes in other operating assets and liabilities, net	38	3
Net cash provided by operating activities	\$251	\$335
Investing activities:		
Acquisitions of businesses, net of cash acquired, and purchased software	\$(25)	\$(15)
Purchases of property and equipment	(24)	(22)
Other investing activities	(1)	(1)
Net cash used in investing activities	\$(50)	\$(38)
Financing activities:		
Dividends paid	\$(214)	\$(215)
Purchases of common stock	(80)	(90)
Notional pooling borrowings	1,076	1,173
Notional pooling repayments	(1,053)	(1,204)
Debt repayments	(259)	(9)
Debt issuance costs	—	(3)
Exercise of common stock options	21	5
Payments related to tax withholding for share-based compensation	(40)	(35)
Other financing activities	(9)	(3)
Net cash used in financing activities	\$(558)	\$(381)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(118)	136
(Decrease) increase in cash, cash equivalents and restricted cash	\$(475)	\$52
Cash, cash equivalents and restricted cash at beginning of period	3,407	2,772
Cash, cash equivalents and restricted cash at end of period	\$2,932	\$2,824
Effective April 1, 2018, the Company adopted Topic 606 utilizing the modified retrospective method. As a result, the financial statements are not comparable to the prior period presented. See accompanying Notes to the Condensed		

Consolidated Financial Statements for details.

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CA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ACCOUNTING POLICIES

Basis of Presentation: The accompanying unaudited condensed consolidated financial statements (“Condensed Consolidated Financial Statements”) of CA, Inc. and its subsidiaries (the “Company”) as of and for the periods ended September 30, 2018 reflect the adoption of Topic 606 (as defined below) on April 1, 2018 using the modified retrospective method. The accompanying Condensed Consolidated Balance Sheet as of March 31, 2018 and the Condensed Consolidated Statements of Operations, Comprehensive Income and Cash Flows for the periods ended September 30, 2017 have not been revised for the effects of Topic 606 and are therefore not comparable to the September 30, 2018 periods.

The Condensed Consolidated Financial Statements of the 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, 2018 (“2018 Form 10-K”). In the opinion of the Company’s 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 the Company’s management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management’s knowledge of current events and actions it may undertake in the future, these estimates may ultimately differ from actual results.

Operating results for the three and six months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2019.

Cash, Cash Equivalents and Restricted Cash: The Company’s cash and cash equivalents are held in numerous locations throughout the world, with approximately 53% being held by the Company’s foreign subsidiaries outside the United States at September 30, 2018.

At September 30, 2018 and March 31, 2018, the total amount of restricted cash included in “Other noncurrent assets, net” in the Company’s Condensed Consolidated Balance Sheets was approximately \$1 million and \$2 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 six months ended September 30, 2018 and 2017.

New Accounting Pronouncements:

New Accounting Pronouncements Recently 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, creating new ASC Topic 606 (“Topic 606”) that replaces most existing revenue recognition guidance in GAAP. Topic 606 was adopted by the Company effective April 1, 2018 using the modified retrospective method. Reporting periods prior to the adoption of Topic 606 were presented in accordance with ASC Topic 605 (“Topic 605”). As a result of adopting Topic 606, the Company now recognizes revenue for the license component of all its on-premise software arrangements at the point-in-time control of the software license is transferred to the customer, rather than ratably over the term of the contract. The Company reflected the impact of the changes at transition with a cumulative increase of approximately \$2,104 million to the opening balance of retained earnings. Refer to Note 2, “Revenue from Contracts with Customers,” and Note 3, “Impact of Adopting Topic 606,” for a discussion of the changes in the Company’s policies for revenue recognition and commissions, and the required disclosures related to the impact of adopting Topic 606. Refer to the Company’s Annual Report on Form 10-K for policies in accordance with Topic 605.

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 was adopted by the Company when effective in first quarter of fiscal year 2019 using the modified retrospective method of adoption. The adoption of this standard did not have a material effect on the Company’s consolidated financial statements and related disclosures.

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CA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

New Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (“ASU 2016-02”), Leases (Topic 842), with amendments in 2018, requiring 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 in the first quarter of fiscal year 2020 and requires the modified retrospective method of adoption, with an option to recognize the cumulative effect of applying the new standard as an adjustment to the opening balance of retained earnings. Early adoption is permitted. The Company will adopt ASU 2016-02 when effective in the first quarter of fiscal year 2020. Although the Company is currently evaluating 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 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 in the first quarter of fiscal year 2021 and requires a prospective method of adoption. Early adoption is permitted. Although the Company is currently evaluating the timing of adoption of ASU 2017-04, it does not currently expect the adoption to have a material effect 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 in the 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.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02 (“ASU 2018-02”), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220), which allows stranded tax effects resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017 (the “Tax Act”) to be reclassified from accumulated other comprehensive income to retained earnings. Since ASU 2018-02 only relates to the income tax effects from the Tax Act, the underlying guidance that requires the effects from changes in tax laws or rates be included in income from continuing operations is not affected. ASU 2018-02 will be effective for the Company in the first quarter of fiscal year 2020. Early adoption is permitted. Although the Company is currently evaluating the timing of adoption of ASU 2018-02, it does not currently expect the adoption to have a material effect on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13 (“ASU 2018-13”), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820), which modifies the disclosure requirements on fair value measurements. ASU 2018-13 will be effective for the Company in the first quarter of fiscal year 2021. Early adoption is permitted. Although the Company is currently evaluating the timing of adoption of ASU 2018-13, it does not currently expect the adoption to have a material effect on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued Accounting Standards Update No. 2018-15 (“ASU 2018-15”), Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (Subtopic 350-40), which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 will be effective for the Company in the first quarter of fiscal year 2021. Early adoption is permitted. The Company is currently evaluating the timing of adoption and the effect that ASU 2018-15 will have on its consolidated financial statements and related disclosures.

Reclassifications: As a result of the adoption of Topic 606 on a modified retrospective basis, the Company’s presentation of prior year revenue in its Condensed Consolidated Statement of Operations has been revised to combine the previously reported revenue line items “Subscription and maintenance” and “Software fees and other” into the revenue line item “Software licenses and maintenance” in the current year presentation. This reclassification had no effect on total revenue as previously reported for the three and six months ended September 30, 2017. Refer to Note 3, “Impact of Adopting Topic 606,” for the transitional disclosures required by Topic 606.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Other Information: On July 11, 2018, the Company, Broadcom Inc. (“Broadcom”), and Collie Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Broadcom (“Merger Sub”) entered into an Agreement and Plan of Merger (the “Merger Agreement”). The transaction closed on November 5, 2018. Pursuant to the terms of the Merger Agreement, effective as of the closing, Merger Sub was merged with and into the Company (the “Merger”), with the Company surviving the Merger and becoming a wholly owned subsidiary of Broadcom. Under the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of Company common stock (other than shares that were (i) owned or held in treasury by the Company or owned by Broadcom or Merger Sub and (ii) owned by any wholly owned subsidiary of Broadcom or of the Company) was cancelled and automatically converted into the right to receive \$44.50 in cash, without interest. On November 5, 2018, following the consummation of the Merger, the Company’s common stock was delisted from the NASDAQ Global Select Market (“NASDAQ”) and deregistered under the Exchange Act. Trading of the Company’s common stock on NASDAQ was halted prior to the opening of trading on November 5, 2018.

NOTE 2 – REVENUE FROM CONTRACTS WITH CUSTOMERS

In accordance with Topic 606, the Company accounts for a customer contract when both parties have approved the contract and are committed to perform their respective obligations, each party’s rights can be identified, payment terms can be identified, the contract has commercial substance, and it is probable the Company will collect substantially all of the consideration to which it is entitled. Revenue is recognized when, or as, performance obligations are satisfied by transferring control of a promised product or service to a customer.

A. Nature of products and services

The Company’s products and services can be broadly categorized as perpetual licenses to use software, term-based licenses for Software-as-a-Service (“SaaS”) and on-premise use of software, maintenance for perpetual and term-based on-premise licenses, and professional services. The Company’s software licenses and maintenance are for mainframe, enterprise, and SaaS computing environments.

Perpetual licenses: The Company sells perpetual licenses which provide customers the right to use software for an indefinite period of time in exchange for a one-time license fee, which may be paid either at contract inception or in installments over the contract term. The Company’s on-premise software licenses have standalone functionality from which customers derive a substantial portion of the benefit. Accordingly, for perpetual licenses, revenue is recognized at the point-in-time when the customer is able to use and benefit from the software, which is generally upon delivery to the customer.

Term-based arrangements: Term-based arrangements consists of on-premise term licenses, SaaS solutions, as well as maintenance.

On-premise term licenses: The Company sells term licenses which provide customers the right to use software for a specified period of time. Like perpetual licenses, the Company’s term licenses have standalone functionality from which customers derive a substantial portion of the benefit. Accordingly, for on-premise term licenses, revenue is generally recognized at the point-in-time when the customer is able to use and benefit from the software, which is generally upon delivery to the customer or upon the commencement of the renewal term. Payments for term licenses may be paid either at contract inception or in installments over the period of the term licenses.

SaaS solutions: The Company offers cloud-based solutions that provide customers the right to access the Company’s software through the internet for a period of time. The payment for SaaS solutions may be received either at inception of the arrangement, or over the term of the arrangement. The Company’s SaaS solutions represent a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. Revenue from a SaaS solution is generally recognized ratably over the term of the arrangement. Revenue related to SaaS solutions provided on a usage basis, such as the number of users, is recognized based on customer’s utilization of the service in a given period.

Maintenance: Maintenance is provided for both perpetual and on-premise term license arrangements, and consists primarily of telephone support and the provision of unspecified updates and upgrades on a when-and-if-available

basis. Maintenance for perpetual licenses is renewable, generally on an annual basis, at the option of the customer. Maintenance for on-premise term-based licenses is always renewed concurrently with the term-based licenses for the same duration of time. Maintenance represents stand-ready obligations for which revenue is recognized ratably over the term of the arrangement. Payments for maintenance may be paid either at inception of the maintenance period or in installments over the term of the maintenance period.

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CA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Professional services: Professional services consist of product implementation, consulting, customer education and customer training services. Payment for professional services is generally a fixed fee or a fee based on time and materials. The obligation to provide professional services is generally satisfied over time, with the customer simultaneously receiving and consuming the benefits as the Company satisfies its performance obligations. For professional services, revenue is recognized by measuring progress toward the complete satisfaction of the Company's obligation. Progress for services that are contracted for a fixed price is generally measured based on hours incurred as a portion of total estimated hours, and as a practical expedient, progress for services that are contracted for time and materials is generally based on the amount the Company has the right to invoice.

Material rights

Contracts with customers may include material rights which are also performance obligations. Material rights primarily arise when the contract gives the customer the right to renew or receive products or services at a discounted price in the future. Revenue allocated to material rights is recognized when the customer exercises the right or the right expires. If exercised by the customer, revenue is classified consistent with the products or services obtained through the exercise of the right. If expired, revenue is classified consistent with the products or services in the contract that gave rise to the material right.

Arrangements with multiple performance obligations

The Company's contracts generally contain more than one of the products and services listed above, each of which is separately accounted for as a distinct performance obligation.

Allocation of consideration: The Company allocates total contract consideration to each distinct performance obligation in an arrangement on a relative standalone selling price basis. The standalone selling price reflects the price the Company would charge for a specific product or service if it was sold separately in similar circumstances and to similar customers.

If the arrangement contains professional services and other products or services, the Company first allocates to the professional service obligation a portion of the total contract consideration equal to the standalone selling price of professional services that is observed from consistently priced standalone sales. The Company allocates the remaining consideration among the other products and services in the contract on a relative standalone selling price basis.

The standalone selling price for perpetual and on-premise term licenses, which are always sold with maintenance, is the price for the combined license and maintenance bundle. The amount assigned to the license and maintenance bundle is separated into license and maintenance amounts using the respective standalone selling prices represented by the value relationship between the software license and maintenance.

When two or more contracts are entered into at or near the same time with the same customer, the Company evaluates the facts and circumstances associated with the negotiation of those contracts. Where the contracts are negotiated as a package, the Company will account for them as a single arrangement and allocate the consideration for the combined contracts among the performance obligations accordingly.

Standalone selling price: When available, the Company uses directly observable transactions to determine the standalone selling prices for performance obligations. Observable data is available for maintenance renewals on previously sold perpetual licenses and SaaS. When perpetual or term licenses are sold together with maintenance in a bundled arrangement, the Company estimates a narrow range of standalone selling price using observable pricing information from standalone sales of the bundle, when available, and other relevant information, such as market conditions and pricing strategies.

The value relationship the Company uses to allocate consideration between the license and maintenance performance obligations is derived from the observable relationship of the selling price of a standalone perpetual license maintenance renewal to the related perpetual license fee, which is generally 20% of the net license fee for one year of maintenance. The Company separates the license and maintenance performance obligations of a term license and maintenance bundle using the same observable value relationship as in a perpetual license and maintenance bundle because the nature of the maintenance performance obligation and its value relationship with the right to use the software were determined to be similar.

Arrangements that include a software license sold with more than one year of maintenance for the license use a value relationship which reflects an annual maintenance rate of 20% of the total value ascribed to the right to use the software. As a result, a greater portion of the bundle relates to maintenance as the length of the maintenance period included in the bundle increases.

The Company separately determines the standalone selling prices by geographic region, distribution channel and by volume when the pricing strategies include volume purchase discounts.

The Company also estimates the standalone selling prices of its material rights, which primarily include contractually stated amounts that the customer can use to acquire additional products and services. The Company estimates the value of these rights by considering the stated amount and the likelihood of the customer exercising its right. In addition, an option to purchase or receive additional products or services at a discounted price is estimated as the incremental discount the customer would obtain when exercising the option and the likelihood that the option would be exercised.

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Other policies and judgments

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days of the invoice. In certain arrangements, the Company receives payment from a customer either before or after the performance obligation has been satisfied, however, the Company's contracts generally do not contain a significant financing component.

The Company may modify contracts to offer customers additional products or services. The additional products and services will generally be considered distinct from those products or services transferred to the customer before the modification and will generally be accounted for as a separate contract. The Company evaluates whether the price for the additional products and services reflects the standalone selling price adjusted as appropriate for facts and circumstances applicable to that contract. In determining whether an adjustment is appropriate, the Company evaluates whether the incremental consideration is consistent with the prices previously paid by the customer or similar customers.

The Company reduces transaction price for an estimate of returns that is based on historical data.

B. Disaggregation

The disaggregation of revenue by region, type of performance obligation, timing of revenue recognition, and segment was as follows:

(in millions)	Three Months Ended September 30, 2018	Six Months Ended September 30, 2018
Revenue by region:		
United States	\$ 592	\$ 1,164
EMEA ⁽¹⁾	186	415
Other	117	254
Total revenue	\$ 895	\$ 1,833

Revenue by type of performance obligation:

Perpetual licenses	\$ 70	\$ 146
Renewable:		
On-premise term licenses	157	350
Maintenance	473	960
SaaS	124	238
Professional services	71	139
Total revenue	\$ 895	\$ 1,833

Timing of revenue recognition:

Point-in-time, including professional services	\$ 297	\$ 634
Over time	598	1,199
Total revenue	\$ 895	\$ 1,833

Revenue by segment:

Mainframe Solutions	\$ 388	\$ 828
Enterprise Solutions	436	866
Services	71	139
Total revenue	\$ 895	\$ 1,833

(1) Consists of Europe, the Middle East and Africa.

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C. Contract Balances

The Company's contract assets and deferred revenue balances for the periods indicated below were as follows:

(in millions)	Contract Deferred	
	Assets	Revenue
Balance at April 1, 2018	\$ 931	\$ 1,751
Balance at September 30, 2018	\$ 929	\$ 1,421

The difference in the opening and closing balances of the Company's contract assets and deferred revenue primarily results from the timing difference between the Company's performance and the customer's payment. The Company fulfills its obligations under a contract with a customer by transferring products and services in exchange for consideration from the customer. The Company recognizes a contract asset when it transfers products or services to a customer and the right to consideration is conditional on something other than the passage of time. Accounts receivable are recorded when the customer has been billed or the right to consideration is unconditional. The Company recognizes deferred revenue when it has received consideration or an amount of consideration is due from the customer and the Company has a future obligation to transfer products or services. Deferred revenue includes amounts billed or collected and advanced payments on contracts which may include termination for convenience clauses. The amount of revenue recognized during the six months ended September 30, 2018 that was included in the deferred revenue balance at April 1, 2018 was \$770 million.

D. Transaction Price Allocated to the Remaining Performance Obligations

The following table discloses the aggregate amount of the transaction price and advanced payments allocated to remaining performance obligations as of the end of the reporting period, and when the Company expects to recognize the revenue.

(in millions)	12 months or less	Greater than 12 months (1)
Perpetual licenses	\$ 10	\$ 11
Renewable:		
On-premise term licenses	\$ 231	\$ 113
Maintenance	\$ 1,464	\$ 1,632
SaaS	\$ 345	\$ 221
Professional services	\$ 61	\$ 31
Material rights	\$ 3	\$ 178

(1) Of the amount of performance obligations greater than 12 months, the portion that is 2 to 3 years is approximately \$1.7 billion and the remaining amount is generally between 4 and 5 years.

The Company's multi-year contracts with government customers may have termination for convenience clauses. Approximately \$105 million of advanced payments received from government customers that have termination for convenience rights are included in "Deferred revenue and advanced payments" in the Company's Condensed Consolidated Balance Sheet and allocated to the remaining performance obligations in the table above. In addition, approximately \$574 million related to the remaining unbilled contract value and performance obligations in these contracts with termination for convenience clauses are not included in the allocation of transaction price and not included in "Deferred revenue and advanced payments" in the Company's Condensed Consolidated Balance Sheet.

E. Contract Costs

The Company pays commissions for new product sales as well as for renewals of existing contracts. Commissions paid to obtain renewal contracts are not commensurate with the commissions paid for new product sales and therefore, a portion of the commissions paid for new contracts relate to future renewals.

The Company accounts for commissions using a portfolio approach and allocates the cost of commissions in proportion to the allocation of transaction price of license and maintenance performance obligations, including

assumed renewals. Commissions allocated to the license and license renewal components are expensed at the time the license revenue is recognized. Commissions allocated to maintenance are capitalized and amortized on a straight-line basis over a period of seven years for new contracts, reflecting the Company's estimate of the expected period that the Company will benefit from those commissions. Commissions paid on renewal contracts that are allocated to maintenance are capitalized and amortized over the renewal term of approximately three years. Service contracts are generally less than one year and accordingly, as a practical expedient, commissions paid for service contracts are expensed as incurred.

Amortization of capitalized contract costs is included in "Selling and marketing" expenses in the Company's Condensed Consolidated Statement of Operations. The amount of amortization for the three and six months ended September 30, 2018 was approximately \$31 million and \$61 million, respectively, and there was no impairment loss in relation to the costs capitalized.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – IMPACT OF ADOPTING TOPIC 606

The Company adopted Topic 606 using the modified retrospective method. The cumulative effect of applying the new guidance to all contracts with customers that were not completed at March 31, 2018 was recorded as an adjustment to retained earnings as of the adoption date. As a result of applying the modified retrospective method to adopt Topic 606, the following adjustments were made to the opening balances of the Condensed Consolidated Balance Sheet accounts:

Condensed Consolidated Balance Sheet (in millions)	As Reported March 31, 2018	Adjustments Due to Topic 606	Adjusted April 1, 2018
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,405	\$ —	\$ 3,405
Trade accounts receivable, net	793	9	802
Contract assets	—	772	772
Other current assets	210	(38)	172
Total current assets	\$ 4,408	\$ 743	\$ 5,151
Property and equipment, net	237	—	237
Goodwill	6,804	—	6,804
Capitalized software and other intangible assets, net	1,111	—	1,111
Deferred income taxes	346	(221)	125
Contract assets	—	159	159
Contract costs	—	427	427
Other noncurrent assets, net	154	(19)	135
Total assets	\$ 13,060	\$ 1,089	\$ 14,149
Liabilities and stockholders' equity			
Current liabilities:			
Current portion of long-term debt	\$ 269	\$ —	\$ 269
Accounts payable	85	—	85
Accrued salaries, wages and commissions	242	—	242
Accrued expenses and other current liabilities	340	(8)	332
Deferred revenue and advanced payments	2,289	(1,067)	1,222
Taxes payable, other than income taxes payable	55	—	55
Federal, state and foreign income taxes payable	41	170	211
Total current liabilities	\$ 3,321	\$ (905)	\$ 2,416
Long-term debt, net of current portion	2,514	—	2,514
Federal, state and foreign income taxes payable	311	110	421
Deferred income taxes	111	80	191
Deferred revenue and advanced payments	820	(291)	529
Other noncurrent liabilities	88	—	88
Total liabilities	\$ 7,165	\$ (1,006)	\$ 6,159
Stockholders' equity:			
Preferred stock	\$ —	\$ —	\$ —
Common stock	59	—	59
Additional paid-in capital	3,744	—	3,744
Retained earnings	6,971	2,104	9,075

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Accumulated other comprehensive loss	(290)	(9)	(299)
Treasury stock	(4,589)	—	(4,589)
Total stockholders' equity	\$5,895	\$ 2,095	\$7,990
Total liabilities and stockholders' equity	\$13,060	\$ 1,089	\$14,149

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In connection with the adoption of Topic 606, the Company increased its retained earnings by approximately \$2,104 million. This increase was a result of a decrease in deferred revenue of approximately \$1,358 million and the establishment of contract assets of approximately \$931 million for amounts that would have been recognized under Topic 606 prior to April 1, 2018. In addition, upon adoption of Topic 606, the Company capitalized contract costs of approximately \$427 million relating to commissions incurred to obtain customer contracts. Refer to Note 2 “Revenue from Contracts with Customers” for additional details on contract costs.

The net change in deferred income taxes of approximately \$301 million and income taxes payable of approximately \$280 million is primarily due to the current and deferred tax effects resulting from the aforementioned items.

In addition, the Company made other changes, primarily due to professional services, to our Condensed Consolidated Balance Sheet on April 1, 2018 to comply with Topic 606.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table compares the Condensed Consolidated Balance Sheet at September 30, 2018 to the proforma amounts had the previous standard of Topic 605 been in effect:

Condensed Consolidated Balance Sheet (in millions)	At September 30, 2018		
	As Reported under Topic 606	Proforma as if the previous accounting of Topic 605 was in effect	Effect of Change Higher/(Lower)
Assets			
Current assets:			
Cash and cash equivalents	\$2,931	\$ 2,931	\$ —
Trade accounts receivable, net	507	502	5
Contract assets	817	—	817
Other current assets	107	183	(76)
Total current assets	\$4,362	\$ 3,616	\$ 746
Property and equipment, net	213	213	—
Goodwill	6,790	6,790	—
Capitalized software and other intangible assets, net	981	981	—
Deferred income taxes	124	338	(214)
Contract assets	112	—	112
Contract costs	400	—	400
Other noncurrent assets, net	121	136	(15)
Total assets	\$13,103	\$ 12,074	\$ 1,029
Liabilities and stockholders' equity			
Current liabilities:			
Current portion of long-term debt	\$20	\$ 20	\$ —
Accounts payable	81	81	—
Accrued salaries, wages and commissions	201	201	—
Accrued expenses and other current liabilities	309	319	(10)
Deferred revenue and advanced payments	1,002	1,826	(824)
Taxes payable, other than income taxes payable	25	25	—
Federal, state and foreign income taxes payable	72	—	72
Total current liabilities	\$1,710	\$ 2,472	\$ (762)
Long-term debt, net of current portion	2,506	2,506	—
Federal, state and foreign income taxes payable	297	187	110
Deferred income taxes	171	98	73
Deferred revenue and advanced payments	419	638	(219)
Other noncurrent liabilities	98	98	—
Total liabilities	\$5,201	\$ 5,999	\$ (798)
Stockholders' equity:			
Preferred stock	\$—	\$ —	\$ —
Common stock	59	59	—
Additional paid-in capital	3,735	3,735	—
Retained earnings	9,156	7,263	1,893
Accumulated other comprehensive loss	(463)	(397)	(66)

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Treasury stock	(4,585)	(4,585)	—
Total stockholders' equity	\$7,902	\$ 6,075	\$ 1,827
Total liabilities and stockholders' equity	\$13,103	\$ 12,074	\$ 1,029

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CA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following tables compare the Condensed Consolidated Statement of Operations for the three and six months ended September 30, 2018 to the proforma amounts had the previous standard of Topic 605 been in effect:

Condensed Consolidated Statement of Operations (in millions)	For the Three Months Ended September 30, 2018		
	Proforma		Effect of Change Higher/(Lower)
	As Reported under Topic 606	as if the previous accounting of Topic 605 was in effect	
Revenue:			
Software licenses and maintenance	\$824	\$ 971	\$ (147)
Professional services	71	74	(3)
Total revenue	\$895	\$ 1,045	\$ (150)
Expenses:			
Costs of licensing and maintenance	\$74	\$ 74	\$ —
Cost of professional services	64	70	(6)
Amortization of capitalized software costs	49	49	—
Selling and marketing	252	246	6
General and administrative	99	99	—
Product development and enhancements	158	158	—
Depreciation and amortization of other intangible assets	28	28	—
Other expenses, net	4	4	—
Total expenses before interest and income taxes	\$728	\$ 728	\$ —
Income before interest and income taxes	\$167	\$ 317	\$ (150)
Interest expense, net	19	19	—
Income before income taxes	\$148	\$ 298	\$ (150)
Income tax expense	19	53	(34)
Net income	\$129	\$ 245	\$ (116)
Basic income per common share	\$0.31	\$ 0.59	\$ (0.28)
Basic weighted average shares used in computation	413	413	—
Diluted income per common share	\$0.31	\$ 0.58	\$ (0.27)
Diluted weighted average shares used in computation	416	416	—

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Operations (in millions)	For the Six Months Ended September 30, 2018		
	Proforma		Effect of Change Higher/(Lower)
	As Reported under Topic 606	as if the previous accounting of Topic 605 was in effect	
Revenue:			
Software licenses and maintenance	\$1,694	\$ 1,949	\$ (255)
Professional services	139	148	(9)
Total revenue	\$1,833	\$ 2,097	\$ (264)
Expenses:			
Costs of licensing and maintenance	\$150	\$ 150	\$ —
Cost of professional services	134	143	(9)
Amortization of capitalized software costs	109	109	—
Selling and marketing	487	471	16
General and administrative	203		