

FIRST TRUST EXCHANGE-TRADED ALPHADDEX FUND

Form 40-17G/A

April 05, 2017

April 5, 2017

VIA EDGAR

Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: Rule 17g-1 Fidelity Bond Filing Information with Respect to Joint Fidelity Bond filing under Investment Company Act Rule 17g-1, Bond No 99516111B for the following management investment companies:

FUND NAME	FILE NO.	SEC REGISTRATION NO
Macquarie/First Trust Global Infrastructure/ Utilities Dividend & Income Fund	811-21496	333-112202
First Trust Senior Floating Rate Income Fund II	811-21539	333-113978 and 333-
First Trust Energy Income and Growth Fund	811-21549	333-114131, 333-120 333-154254, 333-123
First Trust Enhanced Equity Income Fund	811-21586	333-116023
First Trust/Aberdeen Global Opportunity Income Fund	811-21636	333-119081
First Trust Mortgage Income Fund	811-21727	333-123262
First Trust Exchange-Traded Fund	811-21774	333-125751
First Trust Strategic High Income Fund II	811-21842	333-131194
First Trust/Aberdeen Emerging Opportunity Fund	811-21905	333-134540
First Trust Specialty Finance and Financial Opportunities Fund	811-22039	333-141457
First Trust Exchange-Traded AlphaDEX(R) Fund	811-22019	333-140895
First Trust Exchange-Traded Fund II	811-21944	333-143964
First Trust High Income Long/Short Fund	811-22442	333-168186
First Trust Exchange-Traded AlphaDEX(R) Fund II	811-22519	333-171759
First Trust Series Fund	811-22452	333-168727
First Trust Energy Infrastructure Fund	811-22528	333-172439 and 333-
First Trust Exchange-Traded Fund VI	811-22717	333-182308
First Trust Exchange-Traded Fund IV	811-22559	333-174332
First Trust Variable Insurance Trust	811-22652	333-178767
First Trust MLP and Energy Income Fund	811-22738	333-183396
First Trust Exchange-Traded Fund III	811-22245	333-176976
First Trust Intermediate Duration Preferred & Income Fund	811-22795	333-186412
First Trust Exchange-Traded Fund V	811-22709	333-181507
First Trust Exchange-Traded Fund VII	811-22767	333-184918
First Trust New Opportunities MLP & Energy Fund	811-22902	333-191808
First Trust Dynamic Europe Equity Income Fund	811-23072	333-205681
First Trust Exchange-Traded Fund VIII	811-23147	333-210186
First Trust Senior Floating Rate 2022 Target Term Fund	811-23199	333-214125

Dear Sir or Madam:

Enclosed for filing, pursuant to Rule 17g-1 of the Investment Company Act of 1940, as amended, please find a copy of the Joint Insured Fidelity Bond for the period October 9, 2016 to October 9, 2017, for the First Trust complex of funds referenced above. Please note that Rider 13 has been added to the Joint Insured Fidelity Bond to increase the Limit of Liability to \$32,000,000 from

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\$30,000,000. Rider 14 has been added to the Joint Insured Fidelity Bond to include First Trust TCW Opportunistic Fixed Income ETF, a series of First Trust Exchange-Traded Fund VIII. Rider 15 has been added to the new names of the following funds: First Trust ISE-Revere Natural Gas Index Fund changed to First Trust Natural Gas ETF, First Trust ISE Chindia Index Fund changed to First Trust Chindia ETF, First Trust ISE Water Index Fund changed to First Trust Water ETF, First Trust US IPO Index Fund changed to First Trust US Equity Opportunities ETF, First Trust ISE Cloud Computing Index Fund changed to First Trust Cloud Computing ETF, First Trust ISE Global Engineering and Construction ETF changed to First Trust Global Engineering and Construction ETF, First Trust ISE Global Wind Energy Index Fund changed to First Trust Global Wind Energy ETF and First Trust NASDAQ Rising Dividend Achievers ETF changed to First Trust Rising Dividend Achievers ETF. Please note for the Commission's records, the following:

(i) The Joint Insured Fidelity Bond;

(ii) a Certificate of Assistant Secretary containing the form of resolutions of the Board of Trustees approving the amount, type, form and coverage of the Fidelity Bond, the amount of the single insured bond which the registrant would have provided had it not been named as an insured under the Fidelity Bond, and a statement as to the period for which premiums have been paid; and

(iii) a copy of the Blanket Bond Insurance Agreement.

Very truly yours,

FIRST TRUST PORTFOLIOS L.P.

/s/ Kristi A. Maher

Deputy General Counsel

Enclosures

r organization)

(I.R.S. Employer
Identification Number)

One CA Plaza

Islandia, New York

11749

(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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one:)

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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 18, 2013
par value \$0.10 per share	451,274,478

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PART I. FINANCIAL INFORMATION
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
CA, Inc.:

We have reviewed the condensed consolidated balance sheet of CA, Inc. and subsidiaries as of September 30, 2013, and the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended September 30, 2013 and 2012, and the condensed consolidated statements of cash flows for the six-month periods ended September 30, 2013 and 2012. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review 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 review, 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, 2013, 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, 2013, 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, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

New York, New York

October 25, 2013

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Item 1.

CA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share amounts)

	September 30, 2013 (unaudited)	March 31, 2013
Assets:		
Current assets:		
Cash and cash equivalents	\$2,790	\$2,593
Short-term investments	9	183
Trade accounts receivable, net	588	856
Deferred income taxes	358	346
Other current assets	166	148
Total current assets	\$3,911	\$4,126
Property and equipment, net of accumulated depreciation of \$826 and \$786, respectively	\$306	\$311
Goodwill	5,920	5,871
Capitalized software and other intangible assets, net	1,214	1,231
Deferred income taxes	76	77
Other noncurrent assets, net	168	195
Total assets	\$11,595	\$11,811
Liabilities and stockholders' equity:		
Current liabilities:		
Current portion of long-term debt	\$11	\$16
Accounts payable	80	93
Accrued salaries, wages and commissions	232	304
Accrued expenses and other current liabilities	381	406
Deferred revenue (billed or collected)	2,038	2,482
Taxes payable, other than income taxes payable	43	77
Federal, state and foreign income taxes payable	58	151
Deferred income taxes	12	12
Total current liabilities	\$2,855	\$3,541
Long-term debt, net of current portion	\$1,768	\$1,274
Federal, state and foreign income taxes payable	175	338
Deferred income taxes	122	120
Deferred revenue (billed or collected)	856	975
Other noncurrent liabilities	144	113
Total liabilities	\$5,920	\$6,361
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; 446,646,793 and 448,149,131 shares outstanding, respectively	59	59
Additional paid-in capital	3,566	3,593
Retained earnings	5,704	5,357
Accumulated other comprehensive loss	(175) (155)

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Treasury stock, at cost, 143,048,288 and 141,545,950 shares, respectively	(3,479) (3,404)
Total stockholders' equity	\$5,675	\$5,450	
Total liabilities and stockholders' equity	\$11,595	\$11,811	
See accompanying Notes to the Condensed Consolidated Financial Statements			

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in millions, except per share amounts)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2013	2012	2013	2012
Revenue:				
Subscription and maintenance	\$945	\$963	\$1,889	\$1,940
Professional services	97	95	195	186
Software fees and other	98	94	184	171
Total revenue	\$1,140	\$1,152	\$2,268	\$2,297
Expenses:				
Costs of licensing and maintenance	\$73	\$69	\$144	\$138
Cost of professional services	88	88	176	174
Amortization of capitalized software costs	73	67	142	131
Selling and marketing	260	317	541	622
General and administrative	91	98	182	208
Product development and enhancements	145	123	280	248
Depreciation and amortization of other intangible assets	37	40	73	81
Other (gains) expenses, net	14	13	143	(23)
Total expenses before interest and income taxes	\$781	\$815	\$1,681	\$1,579
Income before interest and income taxes	\$359	\$337	\$587	\$718
Interest expense, net	13	10	24	21
Income before income taxes	\$346	\$327	\$563	\$697
Income tax expense (benefit)	106	105	(12)	235
Net income	\$240	\$222	\$575	\$462
Basic income per common share	\$0.53	\$0.48	\$1.27	\$0.99
Basic weighted average shares used in computation	448	458	449	462
Diluted income per common share	\$0.53	\$0.48	\$1.26	\$0.99
Diluted weighted average shares used in computation	450	459	450	463

See accompanying Notes to the Condensed Consolidated Financial Statements

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CA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(in millions)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,		
	2013	2012	2013	2012	
Net income	\$240	\$222	\$575	\$462	
Other comprehensive (loss) income					
Foreign currency translation adjustments	23	16	(20	) (10)
Total other comprehensive (loss) income	\$23	\$16	\$(20	) \$(10)
Comprehensive income	\$263	\$238	\$555	\$452	
See accompanying Notes to the Condensed Consolidated Financial Statements					

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

	For the Six Months Ended September 30,	
	2013	2012
Operating activities:		
Net income	\$575	\$462
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	215	212
Deferred income taxes	(59)	(2)
Provision for bad debts	5	3
Share-based compensation expense	41	44
Asset impairments and other non-cash items	4	3
Foreign currency transaction losses	2	19
Changes in other operating assets and liabilities, net of effect of acquisitions:		
Decrease in trade accounts receivable	259	306
Decrease in deferred revenue	(580)	(677)
(Decrease) increase in taxes payable, net	(270)	17
Increase in accounts payable, accrued expenses and other	12	11
Decrease in accrued salaries, wages and commissions	(71)	(113)
Changes in other operating assets and liabilities	(35)	(13)
Net cash provided by operating activities	\$98	\$272
Investing activities:		
Acquisitions of businesses, net of cash acquired, and purchased software	\$(125)	\$(12)
Purchases of property and equipment	(35)	(32)
Capitalized software development costs	(35)	(78)
Purchases of short-term investments	(9)	(154)
Maturities of short-term investments	184	—
Other investing activities	—	2
Net cash used in investing activities	\$(20)	\$(274)
Financing activities:		
Dividends paid	\$(228)	\$(235)
Purchases of common stock	(200)	(344)
Notional pooling borrowings	1,609	513
Notional pooling repayments	(1,639)	(481)
Debt borrowings	498	—
Debt repayments	(8)	(6)
Debt issuance costs	(4)	—
Exercise of common stock options and other	55	22
Net cash provided by (used in) financing activities	\$83	\$(531)
Effect of exchange rate changes on cash	\$36	\$(60)
Increase (decrease) in cash and cash equivalents	\$197	\$(593)
Cash and cash equivalents at beginning of period	\$2,593	\$2,679
Cash and cash equivalents at end of period	\$2,790	\$2,086

See accompanying Notes to the Condensed Consolidated Financial Statements

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CA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – ACCOUNTING POLICIES

Basis of Presentation: The accompanying unaudited Condensed Consolidated Financial Statements of CA, Inc. (Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 270, for interim financial information and with the instructions to Rule 10-01 of Securities and Exchange Commission Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the Company's Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2013 (2013 Form 10-K). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal, recurring nature.

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

Operating results for the three and six months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2014.

Cash and Cash Equivalents: The Company's cash and cash equivalents are held in numerous locations throughout the world, with approximately 59% being held by the Company's foreign subsidiaries outside the United States at September 30, 2013.

Investments: Short-term investments consisted of time deposits held by foreign subsidiaries that are denominated in currencies other than the U.S. dollar. These investments have maturities greater than three months, but less than one year.

Fair Value Measurements: Fair value is the price that would be received for an asset or the amount paid to transfer a liability in an orderly transaction between market participants. The Company is required to classify certain assets and liabilities based on the following fair value hierarchy:

Level 1: Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices for identical assets and liabilities in markets that are not active, or quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

See Note I, "Fair Value Measurements," for additional information.

Deferred Revenue (Billed or Collected): The Company accounts for unearned revenue on billed amounts due from customers on a gross basis. Unearned revenue on billed installments (collected or uncollected) is reported as deferred revenue in the liability section of the Company's Condensed Consolidated Balance Sheets. Deferred revenue (billed or collected) excludes unbilled contractual commitments executed under license and maintenance agreements that will be billed in future periods. See Note F, "Deferred Revenue," for additional information.

Other Matters: As part of the Company's efforts to more fully utilize its intellectual property assets, in the first quarter of fiscal 2013, the Company closed a transaction that assigned the rights to certain of these assets to a large technology company for approximately \$35 million. The entire contract amount is included in the "Other (gains) expenses, net" line of the Company's Condensed Consolidated Statement of Operations for the six months ended September 30, 2012. The Company will continue to have the ability to use these intellectual property assets in current and future product offerings.

New Accounting Pronouncements: In February 2013, the FASB issued Accounting Standards Update No. 2013-02, Comprehensive Income (Topic 220) —Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive

Income (ASU 2013-02), requiring an entity to present information about reclassification adjustments from accumulated other comprehensive income in their financial statements or footnotes. The Company adopted ASU 2013-02 in the first quarter of fiscal year 2014 and the current and prior periods have been presented in accordance with ASU 2013-02.

NOTE B – ACQUISITIONS

In June 2013, the Company acquired 100% of the voting equity interest of Layer 7 Technologies (Layer 7), a provider of application programming interface (API) management and security software. The acquisition of Layer 7 will enable the Company to provide security and management technology to the API marketplace that complements its current identity and access management software suite. The total purchase price of the Layer 7 acquisition was approximately \$155 million.

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The pro forma effects of the Company's first quarter fiscal year 2014 acquisition of Layer 7 on the Company's revenues and results of operations during fiscal year 2013 were considered immaterial. The preliminary purchase price allocation is as follows:

(dollars in millions)	Layer 7	Estimated Useful Life
Finite-lived intangible assets ⁽¹⁾	\$12	5 years
Purchased software	99	5 years
Goodwill	54	Indefinite
Deferred tax liabilities	(14) —
Other assets net of other liabilities assumed ⁽²⁾	4	—
Purchase price	\$155	

(1) Includes customer relationships and trade names.

(2) Includes approximately \$9 million of cash acquired.

Transaction costs for the acquisition were immaterial. The excess purchase price over the estimated value of the net tangible and identifiable intangible assets was recorded to goodwill. The preliminary allocation of a significant portion of the purchase price to goodwill was predominantly due to synergies the Company expects from marketing and integration of the Layer 7 products with other products of the Company and intangible assets that are not separable, such as assembled workforce and going concern. The goodwill relating to the Company's acquisition of Layer 7 is not deductible for tax purposes and was allocated to the Enterprise Solutions segment. The allocation of purchase price to acquired identifiable assets, including intangible assets, is preliminary because the Company has not completed its fair value analysis and review of historical tax records of Layer 7.

The Company had approximately \$34 million and \$14 million of accrued acquisition-related costs at September 30, 2013 and March 31, 2013, respectively, related to purchase price amounts withheld to support indemnification obligations by the sellers.

NOTE C – SEVERANCE AND EXIT COSTS

Fiscal year 2014 re-balancing plan: The fiscal year 2014 re-balancing plan (Fiscal 2014 Plan) was announced in May 2013 and will consist of a termination of more than 1,200 employees and consolidations of several facilities. The reduction in the number of employees is expected to be temporary as the Company intends to hire additional personnel with skills that will enable the Company to better focus its resources on key products and market segments. The total amount incurred for severance and facility exit costs under the Fiscal 2014 Plan for the first six months of fiscal year 2014 was approximately \$103 million and \$19 million, respectively, and is presented in "Other (gains) expenses, net" in the Company's Condensed Consolidated Statement of Operations. The Company expects total costs of the Fiscal 2014 Plan to be approximately \$150 million (including severance costs of approximately \$130 million and global facility consolidation costs of approximately \$20 million). Actions under the Fiscal 2014 Plan are expected to be substantially completed by the end of fiscal year 2014.

Accrued severance and exit costs and changes in the accruals during the six months ended September 30, 2013 and 2012 were as follows:

(in millions)	Accrued Balance at March 31, 2013	Expense	Change in Estimate	Payments	Accretion and Other	Accrued Balance at September 30, 2013
Severance charges	\$16	\$111	\$(9	) \$(69	) \$3	\$52
Facility exit charges	23	19	—	(6	) (3	) 33
Total accrued liabilities	\$39					\$85

(in millions)	Accrued Balance at March 31, 2012	Expense	Change in Estimate	Payments	Accretion and Other	Accrued Balance at September 30, 2012
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Severance charges	\$13	\$—	\$(3) \$(7) \$—	\$3
Facility exit charges	40	—	—	(5) (3) 32
Total accrued liabilities	\$53					\$35

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CA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Balances at September 30, 2013 and 2012 include severance accruals of approximately \$7 million and \$3 million, respectively, and facility exit accruals of approximately \$15 million and \$32 million, respectively, for plans and actions prior to fiscal year 2014.

The severance liability is included in "Accrued salaries, wages and commissions" in the Condensed Consolidated Balance Sheets. The facility exit liabilities are included in "Accrued expenses and other current liabilities" and "Other noncurrent liabilities" in the Condensed Consolidated Balance Sheets.

Accretion and other includes accretion of the Company's lease obligations related to facility exits as well as changes in the assumptions related to future sublease income. These costs are included in "General and administrative" expense in the Condensed Consolidated Statements of Operations.

NOTE D – TRADE ACCOUNTS RECEIVABLE

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

	September 30, 2013	March 31, 2013
	(in millions)	
Accounts receivable – billed	\$523	\$796
Accounts receivable – unbilled	67	63
Other receivables	19	21
Less: Allowances	(21	) (24
Trade accounts receivable, net	\$588	\$856

NOTE E – GOODWILL, CAPITALIZED SOFTWARE AND OTHER INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization for capitalized software and other intangible assets at September 30, 2013 were as follows:

	At September 30, 2013				
	Gross Amortizable Assets	Less: Fully Amortized Assets	Remaining Amortizable Assets	Accumulated Amortization on Remaining Amortizable Assets	Net Assets
	(in millions)				
Purchased software products	\$5,703	\$4,779	\$924	\$323	\$601
Internally developed software products	1,559	675	884	396	488
Other intangible assets	832	480	352	227	125
Total capitalized software and other intangible assets	\$8,094	\$5,934	\$2,160	\$946	\$1,214

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CA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The gross carrying amounts and accumulated amortization for capitalized software and other intangible assets at March 31, 2013 were as follows:

	At March 31, 2013				
	Gross Amortizable Assets	Less: Fully Amortized Assets	Remaining Amortizable Assets	Accumulated Amortization on Remaining Amortizable Assets	Net Assets
	(in millions)				
Purchased software products	\$5,597	\$4,735	\$862	\$309	\$553
Internally developed software products	1,528	661	867	327	540
Other intangible assets	816	429	387	249	138
Total capitalized software and other intangible assets	\$7,941	\$5,825	\$2,116	\$885	\$1,231

Based on the capitalized software and other intangible assets recorded through September 30, 2013, the projected annual amortization expense for fiscal year 2014 and the next four fiscal years is expected to be as follows:

	Year Ended March 31,				
	2014	2015	2016	2017	2018
	(in millions)				
Purchased software products	\$118	\$111	\$109	\$107	\$104
Internally developed software products	166	150	120	86	40
Other intangible assets	54	46	28	11	7
Total	\$338	\$307	\$257	\$204	\$151

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

Goodwill activity by segment for the six months ended September 30, 2013 was as follows:

(in millions)	Mainframe Solutions	Enterprise Solutions	Services	Total	
Balance at March 31, 2013	\$4,178	\$1,612	\$81	\$5,871	
Revision to preliminary purchase price allocation of prior year acquisition	—	(6) —	(6)
Balance at March 31, 2013 as revised	\$4,178	\$1,606	\$81	\$5,865	
Acquisitions	—	54	—	54	
Foreign currency translation adjustment	—	1	—	1	
Balance at September 30, 2013	\$4,178	\$1,661	\$81	\$5,920	

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CA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE F – DEFERRED REVENUE

The current and noncurrent components of “Deferred revenue (billed or collected)” at September 30, 2013 and March 31, 2013 were as follows:

	September 30, 2013 (in millions)	March 31, 2013
Current:		
Subscription and maintenance	\$1,882	\$2,307
Professional services	136	154
Software fees and other	20	21
Total deferred revenue (billed or collected) – current	\$2,038	\$2,482
Noncurrent:		
Subscription and maintenance	\$824	\$940
Professional services	30	33
Software fees and other	2	2
Total deferred revenue (billed or collected) – noncurrent	\$856	\$975
Total deferred revenue (billed or collected)	\$2,894	\$3,457

NOTE G – DEBT

Senior Notes: In August 2013, the Company issued \$250 million of 2.875% Senior Notes due August 2018 (2.875% Notes) and \$250 million of 4.500% Senior Notes due August 2023 (4.500% Notes), for proceeds of approximately \$498 million, reflecting a discount of approximately \$2 million. The 2.875% Notes and 4.500% Notes are senior unsecured obligations that rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations and are redeemable by the Company at any time, subject to a “make-whole” premium of 25 basis points and 30 basis points for the 2.875% Notes and 4.500% Notes, respectively. Interest on the 2.875% Notes and 4.500% Notes is payable semiannually in August and February, beginning February 2014. The 2.875% Notes and 4.500% Notes contain customary covenants and events of default. The maturity of the 2.875% Notes and the 4.500% Notes may be accelerated by holders upon certain events of default, including failure to make payments when due and failure to comply with covenants.

The Company capitalized finance costs of approximately \$4 million associated with the 2.875% Notes and 4.500% Notes and will amortize these costs to “Interest expense, net” in the Company's Consolidated Statements of Operations.

Revolving Credit Facility: In June 2013, the Company amended its revolving credit facility to extend the termination date to June 2018.

The maximum committed amount available under the revolving credit facility due June 2018 is \$1 billion. The facility also provides the Company with an option to increase the available credit by an amount up to \$500 million. This option is subject to certain conditions and the agreement of the facility lenders.

Advances under the revolving credit facility due June 2018 bear interest at a rate dependent on the Company's credit ratings at the time of those borrowings and are calculated according to a Base Rate or a Eurocurrency Rate, as the case may be, plus an applicable margin. The Company must also pay facility commitment fees quarterly on the full revolving credit commitment at rates dependent on the Company's credit ratings.

At September 30, 2013 and March 31, 2013, there were no outstanding borrowings under the revolving credit facility and, based on the Company's credit ratings, the rates applicable to the facility at September 30, 2013 and March 31, 2013 were as follows:

	September 30, 2013		March 31, 2013	
Applicable margin on Base Rate borrowing	0.125	%	0.250	%
Weighted average interest rate on outstanding borrowings	—	%	—	%
Applicable margin on Eurocurrency Rate borrowing	1.000	%	1.100	%

Facility commitment fee	0.125	%	0.150	%
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The interest rate that would have applied at September 30, 2013 to a borrowing under the revolving credit facility due June 2018 would have been 3.38% for Base Rate borrowings and 1.18% for Eurocurrency Rate borrowings. The Company capitalized the transaction fees of approximately \$1 million associated with the extension of the revolving credit facility due June 2018. These fees are being amortized to "Interest expense, net" in the Condensed Consolidated Statements of Operations.

There was no borrowing activity under the revolving credit facility for the six months ended September 30, 2013. The revolving credit facility due June 2018 contains customary covenants for borrowings of this type, including two financial covenants: (i) for the 12 months ending each quarter-end, the ratio of consolidated debt for borrowed money to consolidated cash flow, each as defined in the revolving credit facility agreement, must not exceed 4.00 to 1.00; and (ii) for the 12 months ending at any date, the ratio of consolidated cash flow to the sum of interest payable on, and amortization of debt discount in respect of, all consolidated debt for borrowed money, as defined in the credit agreement, must not be less than 3.50 to 1.00. At September 30, 2013, the Company was in compliance with all covenants.

In addition, future borrowings under the revolving credit facility require, at the date of a borrowing, that (i) no event of default shall have occurred and be continuing and (ii) the Company reaffirm the representations and warranties it made in the credit agreement.

NOTE H – DERIVATIVES

The Company is exposed to financial market risks arising from changes in interest rates and foreign exchange rates. Changes in interest rates could affect the Company's monetary assets and liabilities, and foreign exchange rate changes could affect the Company's foreign currency denominated monetary assets and liabilities and forecasted transactions. The Company enters into derivative contracts with the intent of mitigating a portion of these risks.

Interest Rate Swaps: The Company has interest rate swaps with a total notional value of \$500 million, which swap a total of \$500 million of its 6.125% Senior Notes due December 2014 into floating interest rate debt through December 1, 2014. These swaps are designated as fair value hedges.

At September 30, 2013, the fair value of these derivatives was an asset of approximately \$14 million, of which approximately \$12 million is included in "Other current assets" and approximately \$2 million is included in "Other noncurrent assets, net" in the Company's Condensed Consolidated Balance Sheet.

At March 31, 2013, the fair value of these derivatives was an asset of approximately \$19 million, of which approximately \$11 million is included in "Other current assets" and approximately \$8 million is included in "Other noncurrent assets, net" in the Company's Condensed Consolidated Balance Sheet.

Foreign Currency Contracts: The Company enters into foreign currency option and forward contracts to manage foreign currency risks. The Company has not designated its foreign exchange derivatives as hedges. Accordingly, changes in fair value from these contracts are recorded as "Other (gains) expenses, net" in the Company's Condensed Consolidated Statements of Operations.

At September 30, 2013, foreign currency contracts outstanding consisted of purchase and sales contracts with a total gross notional value of approximately \$746 million, and durations of less than six months. The net fair value of these contracts at September 30, 2013 was a net asset of approximately \$2 million, of which approximately \$9 million is included in "Other current assets" and approximately \$7 million is included in "Accrued expenses and other current liabilities" in the Company's Condensed Consolidated Balance Sheet.

At March 31, 2013, foreign currency contracts outstanding consisted of purchase and sales contracts with a total notional value of approximately \$597 million and durations of less than one month. The net fair value of these contracts at March 31, 2013 was a net asset of approximately \$1 million, of which approximately \$1 million is included in "Other current assets" in the Company's Condensed Consolidated Balance Sheet.

A summary of the effect of the interest rate and foreign exchange derivatives on the Company's Condensed Consolidated Statements of Operations was as follows:

(in millions)	Amount of Net (Gain)/Loss Recognized in the Condensed Consolidated Statements of Operations			
	Three Months Ended September 30,		Six Months Ended September 30,	
	2013	2012	2013	2012
Interest expense, net – interest rate swaps designated as fair value hedges	\$(3) \$(3) \$(6) \$(6
Other (gains) expenses, net – foreign currency contracts	\$(6) \$2	\$(15) \$10

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The Company is subject to collateral security arrangements with most of its major counterparties. These arrangements require the Company or the counterparty to post collateral when the derivative fair values exceed contractually established thresholds. The aggregate fair values of all derivative instruments under these collateralized arrangements were in a net asset position at September 30, 2013 and March 31, 2013. The Company posted no collateral at September 30, 2013 or March 31, 2013. 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 I – FAIR VALUE MEASUREMENTS

The following table presents the Company's assets and liabilities that were measured at fair value on a recurring basis at September 30, 2013 and March 31, 2013:

(in millions)	At September 30, 2013			At March 31, 2013		
	Fair Value Measurement Using Input Types		Estimated Fair Value	Fair Value Measurement Using Input Types		Estimated Fair Value
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Money market funds	\$1,003	\$—	\$1,003	⁽¹⁾ \$1,280	\$—	\$1,280 ⁽²⁾
Foreign exchange derivatives ⁽³⁾	—	9	9	—	1	1
Interest rate derivatives ⁽³⁾	—	14	14	—	19	19
Total assets	\$1,003	\$23	\$1,026	\$1,280	\$20	\$1,300
Liabilities:						
Foreign exchange derivatives ⁽³⁾	\$—	\$7	\$7	\$—	\$—	\$—
Total liabilities	\$—	\$7	\$7	\$—	\$—	\$—

At September 30, 2013, the Company had approximately \$953 million and \$50 million of investments in money (1)market funds classified as “Cash and cash equivalents” and “Other noncurrent assets, net” for restricted cash amounts, respectively, in its Condensed Consolidated Balance Sheet.

At March 31, 2013, the Company had approximately \$1,230 million and \$50 million of investments in money (2)market funds classified as “Cash and cash equivalents” and “Other noncurrent assets, net” for restricted cash amounts, respectively, in its Condensed Consolidated Balance Sheet.

(3)See Note H, “Derivatives” for additional information. Interest rate derivatives fair value excludes accrued interest. At September 30, 2013 and March 31, 2013, the Company did not have any assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

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

The following table presents the carrying amounts and estimated fair values of the Company's other financial instruments that were not measured at fair value on a recurring basis at September 30, 2013 and March 31, 2013:

(in millions)	At September 30, 2013		At March 31, 2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Liabilities:				
Total debt ⁽¹⁾	\$1,779	\$1,892	\$1,290	\$1,413
Facility exit reserve ⁽²⁾	\$32	\$35	\$23	\$27

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

Estimated fair value for the facility exit reserve is determined using the Company's incremental borrowing rate at September 30, 2013 and March 31, 2013. At September 30, 2013 and March 31, 2013, the facility exit reserve (2) included approximately \$10 million and \$6 million, respectively, in "Accrued expenses and other current liabilities" and approximately \$22 million and \$17 million, respectively, in "Other noncurrent liabilities" in the Company's Condensed Consolidated Balance Sheets (Level 3).

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NOTE J – COMMITMENTS AND CONTINGENCIES

The Company, various subsidiaries, and certain current and former officers have been or, from time to time, may be named as defendants in various lawsuits and claims arising in the normal course of business. The Company may also become involved with contract issues and disputes with customers, including government customers. The Company believes that it has meritorious defenses in connection with these lawsuits, claims and disputes, and intends to vigorously contest each of them.

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.

In the opinion of the Company's management based upon information currently available to the Company, while the outcome of these lawsuits and claims is uncertain, the likely results of these lawsuits and claims against the Company are not expected, either individually or in the aggregate, to have a material adverse effect on the Company's financial position, results of operations or cash flows, although the effect could be material to the Company's results of operations or cash flows for any interim reporting period. For some of these matters, the Company is unable to estimate a range of reasonably possible loss due to the stage of the matter and/or other particular circumstances of the matter. For others, a range of reasonably possible loss can be estimated. For those matters for which such a range can be estimated, the Company estimates that, in the aggregate, the range of reasonably possible loss is from zero to \$25 million. This is in addition to amounts, if any, that have been accrued for those matters.

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

NOTE K – STOCKHOLDERS' EQUITY

Stock Repurchases: During the six months ended September 30, 2013, the Company repurchased approximately 7 million shares of its common stock for approximately \$198 million. At September 30, 2013, the Company remained authorized to purchase approximately \$307 million of its common stock under its current stock repurchase program.

Accumulated Other Comprehensive Loss: Foreign currency translation losses included in "Accumulated other comprehensive loss" in the Company's Condensed Consolidated Balance Sheets at September 30, 2013 and March 31, 2013 were approximately \$175 million and \$155 million, respectively.

Cash Dividends: The Company's Board of Directors declared the following dividends during the six months ended September 30, 2013 and 2012:

Six Months Ended September 30, 2013:

(in millions, except per share amounts)

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
May 9, 2013	\$0.25	May 23, 2013	\$114	June 11, 2013
August 1, 2013	\$0.25	August 22, 2013	\$114	September 10, 2013

Six Months Ended September 30, 2012:

(in millions, except per share amounts)

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
May 8, 2012	\$0.25	May 22, 2012	\$119	June 12, 2012
August 2, 2012	\$0.25	August 14, 2012	\$116	September 11, 2012

NOTE L – INCOME PER COMMON SHARE

Basic net income per common share excludes dilution and is calculated by dividing net income allocable to common shares by the weighted average number of common shares outstanding for the period. Diluted net income per common share is calculated by dividing net income allocable to common shares by the weighted average number of common

shares, as adjusted for the potential dilutive effect of non-participating share-based awards.

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The following table presents basic and diluted income per common share information for the three and six months ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013		Six Months Ended September 30, 2012	
	2013	2012	2013	2012
	(in millions, except per share amounts)			
Basic income per common share:				
Net income	\$240	\$222	\$575	\$462
Less: Net income allocable to participating securities	(2	) (2	) (6	) (5
Net income allocable to common shares	\$238	\$220	\$569	\$457
Weighted average common shares outstanding	448	458	449	462
Basic income per common share	\$0.53	\$0.48	\$1.27	\$0.99
Diluted income per common share:				
Net income	\$240	\$222	\$575	\$462
Less: Net income allocable to participating securities	(2	) (2	) (6	) (5
Net income allocable to common shares	\$238	\$220	\$569	\$457
Weighted average shares outstanding and common share equivalents:				
Weighted average common shares outstanding	448	458	449	462
Weighted average effect of share-based payment awards	2	1	1	1
Denominator in calculation of diluted income per share	450	459	450	463
Diluted income per common share	\$0.53	\$0.48	\$1.26	\$0.99

For the three months ended September 30, 2013 and 2012, respectively, approximately 2 million and 4 million shares of Company common stock underlying restricted stock awards and options to purchase common stock were excluded from the calculation because their effect on income per share was anti-dilutive during the respective periods.

Weighted average restricted stock awards of approximately 5 million and 5 million for the three months ended September 30, 2013 and 2012, respectively, were considered participating securities in the calculation of net income allocable to common stockholders.

For the six months ended September 30, 2013 and 2012, respectively, approximately 2 million and 3 million shares of Company common stock underlying restricted stock awards and options to purchase common stock were excluded from the calculation because their effect on income per share was anti-dilutive during the respective periods.

Weighted average restricted stock awards of approximately 5 million and 6 million for the six months ended September 30, 2013 and 2012, respectively, were considered participating securities in the calculation of net income allocable to common stockholders.

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NOTE M – ACCOUNTING FOR SHARE-BASED COMPENSATION

The Company recognized share-based compensation in the following line items in the Condensed Consolidated Statements of Operations for the periods indicated:

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(in millions)			
Costs of licensing and maintenance	\$1	\$1	\$2	\$1
Cost of professional services	1	1	2	2
Selling and marketing	8	8	15	18
General and administrative	6	7	12	15
Product development and enhancements	5	4	10	8
Share-based compensation expense before tax	\$21	\$21	\$41	\$44
Income tax benefit	(6	) (8	) (13	) (16
Net share-based compensation expense	\$15	\$13	\$28	\$28

The following table summarizes information about unrecognized share-based compensation costs at September 30, 2013:

	Unrecognized Share-Based Compensation Costs (in millions)	Weighted Average Period Expected to be Recognized (in years)
Stock option awards	\$10	2.4
Restricted stock units	24	2.2
Restricted stock awards	75	2.1
Performance share units	22	2.8
Total unrecognized share-based compensation costs	\$131	2.3

There were no capitalized share-based compensation costs for the three and six months ended September 30, 2013 and 2012.

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

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For the six months ended September 30, 2013 and 2012, the Company issued options for approximately 1.6 million shares and 0.7 million shares, respectively. The weighted average fair values and assumptions used for the options granted were as follows:

	Six Months Ended			
	September 30,			
	2013	2012		
Weighted average fair value	5.19	4.84		
Dividend yield	4.05	% 3.96		%
Expected volatility factor ⁽¹⁾	30	% 34		%
Risk-free interest rate ⁽²⁾	1.5	% 0.8		%
Expected life (in years) ⁽³⁾	6.0	4.5		

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

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

The expected life is the number of years the Company estimates that options will be outstanding prior to exercise.

(3) The Company's computation of expected life was determined based on the simplified method (the average of the vesting period and option term).

The shares under the 1-year PSU awards for the fiscal year 2013 and 2012 incentive plan years under the Company's long-term incentive plans were granted in the first six months of fiscal years 2014 and 2013, respectively. The awards vest 34% on the date of grant and 33% on the first and second anniversaries of the grant date. The table below summarizes the RSAs and RSUs granted under these PSUs:

Incentive Plans for Fiscal Years	Performance Period	RSAs		RSUs	
		Shares (in millions)	Weighted Average Grant Date Fair Value	Shares (in millions)	Weighted Average Grant Date Fair Value
2013	1 year	0.4	\$27.11	0.1	\$26.12
2012	1 year	1.2	\$26.39	0.2	\$25.40

The shares under the 3-year PSUs for the fiscal year 2010 incentive plan year under the Company's long-term incentive plans were granted in the first six months of fiscal year 2013. Unrestricted shares of common stock were issued in settlement immediately upon grant as follows:

Incentive Plans for Fiscal Years	Performance Period	Unrestricted Shares (in millions)	Weighted Average Grant Date Fair Value
2010	3 years	0.2	\$26.39

Share-based awards were granted under the Company's fiscal year 2013 and 2012 Sales Retention Equity Programs in the first six months of fiscal years 2014 and 2013, respectively. These awards vest on the third anniversary of the grant date. The table below summarizes the RSAs and RSUs granted under these programs:

Incentive Plans for Fiscal Years	Performance Period	RSAs		RSUs	
		Shares (in millions)	Weighted Average Grant Date Fair Value	Shares (in millions)	Weighted Average Grant Date Fair Value
2013	1 year	0.2	\$27.11	0.1	\$24.13
2012	1 year	0.2	\$26.39	0.1	\$23.41

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The table below summarizes all of the RSAs and RSUs, including grants made pursuant to the long-term incentive plans discussed above, granted during the three and six months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2013	2012	2013	2012
	(shares in millions)			
RSAs				
Shares	—	(1) —	(1) 2.7	3.6
Weighted average grant date fair value ⁽²⁾	\$30.39	\$25.54	\$27.01	\$26.23
RSUs				
Shares	—	(1) —	(1) 0.8	0.7
Weighted average grant date fair value ⁽³⁾	\$30.13	\$23.63	\$25.37	\$24.29

(1) Less than 0.1 million.

(2) The fair value is based on the quoted market value of the Company's common stock on the grant date.

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

Employee Stock Purchase Plan: The Company maintains the 2012 Employee Stock Purchase Plan (ESPP) for all eligible employees. The ESPP offer period is semi-annual and allows participants to purchase the Company's common stock at 95% of the closing price of the stock on the last day of the offer period. The ESPP is non-compensatory. For the six-month offer period ended June 30, 2013, the Company issued approximately 0.1 million shares under the ESPP at an average price of \$27.19 per share. As of September 30, 2013, approximately 29.7 million shares are available for future issuances under the ESPP.

NOTE N – INCOME TAXES

Income tax expense for the three months ended September 30, 2013 was approximately \$106 million and income tax benefit for the six months ended September 30, 2013 was approximately \$12 million, compared with income tax expense for the three and six months ended September 30, 2012 of approximately \$105 million and \$235 million, respectively. For the six months ended September 30, 2013, the Company recognized a net discrete tax benefit of approximately \$179 million resulting primarily from the resolutions of uncertain tax positions upon the completion of the examination of the Company's U.S. federal income tax returns for the tax years ended March 31, 2005, 2006 and 2007.

The Company's estimated annual effective tax rate, which excludes the impact of discrete items, for the six months ended September 30, 2013 and 2012 was 29.7% and 33.0%, respectively. Legislative changes in tax laws, the outcome of tax audits and any other changes in potential tax liabilities may result in additional tax expense or benefit in fiscal year 2014, which are not considered in the Company's estimated annual effective tax rate. While the Company does not currently view any such items as individually material to the results of the Company's consolidated financial position or results of operations, the impact of certain items may yield additional tax expense or benefit in the remaining quarters of fiscal year 2014 and the Company is anticipating a fiscal year 2014 effective tax rate of approximately 14%, which includes the impact of the aforementioned completion of the examination.

The completion of the examination of the Company's U.S. federal income tax returns for the tax years ended March 31, 2005, 2006 and 2007 resulted in a reduction of approximately \$221 million in the Company's uncertain tax positions as disclosed in Note 15, "Income Taxes" of the Company's Form 10-K for the year ended March 31, 2013. The Company received a cash refund of approximately \$70 million upon the completion of this examination.

NOTE O – SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

For the six months ended September 30, 2013 and 2012, interest payments, net were approximately \$31 million and \$31 million, respectively, and income taxes paid, net were approximately \$255 million and \$150 million, respectively. For the six months ended September 30, 2013 and 2012, the excess tax benefits from options exercised included in financing activities were approximately \$3 million and \$5 million, respectively.

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Non-cash financing activities for the six months ended September 30, 2013 and 2012 consisted of treasury shares issued in connection with the following: share-based incentive awards granted under the Company's equity compensation plans of approximately \$46 million (net of approximately \$27 million of taxes withheld) and \$62 million (net of approximately \$34 million of taxes withheld), respectively; and discretionary stock contributions to the CA, Inc. Savings Harvest Plan of approximately \$28 million and \$29 million, respectively.

The Company uses a notional pooling arrangement with an international bank to help manage global liquidity requirements. Under this pooling arrangement, the Company and its participating subsidiaries may maintain either cash deposit or borrowing positions through local currency accounts with the bank, so long as the aggregate position of the global pool is a notionally calculated net cash deposit. Because it maintains a security interest in the cash deposits and has the right to offset the cash deposits against the borrowings, the bank provides the Company and its participating subsidiaries favorable interest terms on both. The activity under this cash pooling arrangement for the six months ended September 30, 2013 and 2012 was as follows:

	Six Months Ended September 30,	
	2013	2012
	(in millions)	
Total borrowing position outstanding at beginning of period ⁽¹⁾	\$ 136	\$ 139
Borrowings	1,609	513
Repayments	(1,639	) (481
Foreign currency exchange effect	20	(7
Total borrowing position outstanding at end of period ⁽¹⁾	\$ 126	\$ 164

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

NOTE P – SEGMENT INFORMATION

The Company's Mainframe Solutions and Enterprise Solutions operating segments comprise its software business organized by the nature of the Company's software offerings and the platform on which the products operate. The Services operating segment comprises implementation, consulting, education and training services, including those directly related to the Mainframe Solutions and Enterprise Solutions software that the Company sells to its customers. Segment expenses do not include share-based compensation expense; amortization of purchased software; amortization of other intangible assets; certain foreign exchange derivative hedging gains and losses; costs associated with our Fiscal 2014 Plan; and other miscellaneous costs. Additionally, starting in the first quarter of fiscal year 2014, the measure of segment expenses and segment profit was revised by the Chief Operating Decision Maker, who is the Company's Chief Executive Officer, to treat all costs of internal software development as segment expense in the period the costs are incurred and as a result, the Company will add back capitalized internal software costs and exclude amortization of internally developed software costs previously capitalized from segment expenses. Prior periods segment expense and profit information has been revised to present segment profit and expense on consistent basis. A measure of segment assets is not currently provided to the Company's Chief Executive Officer and has therefore not been disclosed.

As part of the Company's efforts to more fully utilize its intellectual property assets, in the first quarter of fiscal year 2013, the Company closed a transaction that assigned the rights to certain of these assets to a large technology company for approximately \$35 million. The entire contract amount is included in the Enterprise Solutions segment for the six months ended September 30, 2012. The Company will continue to have the ability to use these intellectual property assets in current and future product offerings.

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The Company's segment information for the three and six months ended September 30, 2013 and 2012 was as follows:

Three Months Ended September 30, 2013 (dollars in millions)	Mainframe Solutions	Enterprise Solutions	Services	Total	
Revenue	\$624	\$419	\$97	\$1,140	
Expenses	228	357	88	673	
Segment profit	\$396	\$62	\$9	\$467	
Segment operating margin	63	% 15	% 9	% 41	%
Depreciation	\$13	\$9	\$—	\$22	
Reconciliation of segment profit to income before income taxes for the three months ended September 30, 2013: (in millions)					
Segment profit				\$467	
Less:					
Purchased software amortization				31	
Other intangibles amortization				15	
Software development costs capitalized				(8)
Internally developed software products amortization				42	
Share-based compensation expense				21	
Other (gains) expenses, net ⁽¹⁾				7	
Interest expense, net				13	
Income before income taxes				\$346	

(1) Other (gains) expenses, net consists of approximately \$2 million of costs associated with the Fiscal 2014 Plan, certain foreign exchange derivative hedging gains and losses, and other miscellaneous costs.

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Six Months Ended September 30, 2013 (dollars in millions)	Mainframe Solutions	Enterprise Solutions	Services	Total	
Revenue	\$1,243	\$830	\$195	\$2,268	
Expenses	470	727	178	1,375	
Segment profit	\$773	\$103	\$17	\$893	
Segment operating margin	62	% 12	% 9	% 39	%
Depreciation	\$26	\$18	\$—	\$44	
Reconciliation of segment profit to income before income taxes for the six months ended September 30, 2013: (in millions)					
Segment profit				\$893	
Less:					
Purchased software amortization				59	
Other intangibles amortization				29	
Software development costs capitalized				(31)
Internally developed software products amortization				83	
Share-based compensation expense				41	
Other (gains) expenses, net ⁽¹⁾				125	
Interest expense, net				24	
Income before income taxes				\$563	

(1) Other (gains) expenses, net consists of approximately \$122 million of costs associated with the Fiscal 2014 Plan, certain foreign exchange derivative hedging gains and losses, and other miscellaneous costs.

Three Months Ended September 30, 2012 (dollars in millions)	Mainframe Solutions	Enterprise Solutions	Services	Total	
Revenue	\$619	\$438	\$95	\$1,152	
Expenses	250	409	89	748	
Segment profit	\$369	\$29	\$6	\$404	
Segment operating margin	60	% 7	% 6	% 35	%
Depreciation	\$16	\$11	\$—	\$27	
Reconciliation of segment profit to income before income taxes for the three months ended September 30, 2012: (in millions)					
Segment profit				\$404	
Less:					
Purchased software amortization				27	
Other intangibles amortization				13	
Software development costs capitalized				(42)
Internally developed software products amortization				40	
Share-based compensation expense				21	
Other (gains) expenses, net ⁽¹⁾				8	
Interest expense, net				10	
Income before income taxes				\$327	

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

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CA, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended September 30, 2012 (dollars in millions)	Mainframe Solutions	Enterprise Solutions	Services	Total	
Revenue	\$1,247	\$864	\$186	\$2,297	
Expenses	511	766	176	1,453	
Segment profit	\$736	\$98	\$10	\$844	
Segment operating margin	59	% 11	% 5	% 37	%
Depreciation	\$32	\$22	\$—	\$54	
Reconciliation of segment profit to income before income taxes for the six months ended September 30, 2012: (in millions)					
Segment profit				\$844	
Less:					
Purchased software amortization				54	
Other intangibles amortization				27	
Software development costs capitalized				(78)
Internally developed software products amortization				77	
Share-based compensation expense				44	
Other (gains) expenses, net ⁽¹⁾				2	
Interest expense, net				21	
Income before income taxes				\$697	

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

The table below summarizes the Company's revenue from the United States and from international (i.e., non-U.S.) locations:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2013	2012	2013	2012
	(in millions)			
United States	\$687	\$685	\$1,360	\$1,368
Europe	267	266	531	538
Other	186	201	377	391
Total revenue	\$1,140	\$1,152	\$2,268	\$2,297

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Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statement

This Quarterly Report on Form 10-Q (Form 10-Q) contains certain forward-looking information relating to CA, Inc. (which we refer to as the "Company," "Registrant," "CA Technologies," "CA," "we," "our" or "us"), that is based on the beliefs and assumptions made by, our management as well as information currently available to management. When used in this Form 10-Q, the words "believes," "plans," "anticipates," "expects," "estimates," "targets" and similar expressions are intended to identify forward-looking information. Forward-looking information includes, for example, the statements made in this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), but also appears in other parts of this Form 10-Q. This forward-looking information reflects our current views with respect to future events and is subject to certain risks, uncertainties, and assumptions.

The declaration and payment of future dividends is subject to the determination of the Company's Board of Directors, in its sole discretion, after considering various factors, including the Company's financial condition, historical and forecast operating results, and available cash flow, as well as any applicable laws and contractual covenants and any other relevant factors. The Company's practice regarding payment of dividends may be modified at any time and from time to time.

Repurchases under the Company's stock repurchase program are expected to be made with cash on hand and may be made from time to time, subject to market conditions and other factors, in the open market, through solicited or unsolicited privately negotiated transactions or otherwise. The program, which is authorized through the fiscal year ending March 31, 2014, does not obligate the Company to acquire any particular amount of common stock, and it may be modified or suspended at any time at the Company's discretion.

A number of important factors could cause actual results or events to differ materially from those indicated by forward-looking statements, including: the ability to achieve success in the Company's strategy by, among other things, effectively re-balancing the Company's sales force to increase penetration in growth markets and with large enterprises that have not historically been significant customers, enabling the sales force to sell new products, improving the Company's brand in the marketplace and ensuring the Company's set of cloud computing, application development and IT operations, Software-as-a-Service, mobile device management and other new offerings address the needs of a rapidly changing market, while not adversely affecting the demand for the Company's traditional products or its profitability; global economic factors or political events beyond the Company's control; general economic conditions and credit constraints, or unfavorable economic conditions in a particular region, industry or business sector; the failure to adapt to technological changes and introduce new software products and services in a timely manner; competition in product and service offerings and pricing; the failure to expand partner programs; the ability to retain and attract adequate qualified personnel; the ability to integrate acquired companies and products into existing businesses; the ability to adequately manage, evolve and protect managerial and financial reporting systems and processes; the ability of the Company's products to remain compatible with ever-changing operating environments; breaches of the Company's software products and the Company's and customers' data centers and IT environments; discovery of errors in the Company's software and potential product liability claims; the failure to protect the Company's intellectual property rights and source code; risks associated with sales to government customers; events or circumstances that would require us to record an impairment charge relating to the Company's goodwill or capitalized software and other intangible assets balances; access to software licensed from third parties; risks associated with the use of software from open source code sources; access to third-party code and specifications for the development of code; third-party claims of intellectual property infringement or royalty payments; fluctuations in the number, terms and duration of the Company's license agreements as well as the timing of orders from customers and channel partners; the failure to renew large license transactions on a satisfactory basis; changes in market conditions or the Company's credit ratings; fluctuations in foreign currencies; the failure to effectively execute the Company's workforce reductions, workforce re-balancing and facility consolidations; successful outsourcing of various functions to third parties; potential tax liabilities; acquisition opportunities that may or may not arise; and other factors described more fully in this Form 10-Q and the Company's other filings with the Securities and Exchange Commission. Should one or more of these risks or uncertainties occur, or should our assumptions prove incorrect,

actual results may vary materially from those described in this Form 10-Q as believed, planned, anticipated, expected, estimated, targeted or similarly expressed in a forward-looking manner. We do not intend to update these forward-looking statements, except as otherwise required by law. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. This MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes to the financial statements. References in this Form 10-Q to fiscal 2014 and fiscal 2013 are to our fiscal years ending on March 31, 2014 and 2013, respectively.

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OVERVIEW

We are a leading provider of enterprise information technology (IT) management software and solutions. We help customers maximize their existing technology investments and recognize the potential of new technology to drive innovation. We transform IT to simplify complexity, free up resources and focus on service quality. We also secure IT to reduce the risk of improper access and fraud. We do this across our customers' choices of platforms - from mainframe and distributed to virtual, cloud and mobile, and across technologies and vendors.

We deliver solutions across the complete service lifecycle, which ranges from portfolio planning and service modeling in pre-production to service assembly, automation, assurance and management in production. This specialized customer-centric and practical approach helps customers manage and maintain IT systems and deliver new, innovative services with speed and agility, while bridging the gap between what businesses want to compete more effectively and what IT can deliver.

Organizations are looking to IT to gain a competitive edge through faster delivery of products, services and applications, new customer acquisition, and agile responses to market change. To achieve these desired business outcomes, many organizations are improving the efficiency and availability of their IT resources and applications by: adopting server virtualization and cloud computing; delivering an experience that embraces social media and the proliferation of smart devices; leveraging application development and IT operations to speed application release cycles; and looking at the flexibility inherent in the variety of Software-as-a-Service (SaaS) offerings available in the market. While these technologies and new business models can reduce operating costs tied to physical infrastructure and increase agility, they also push IT into more complex and hybrid computing environments comprising mainframes, physical servers, virtualized servers and private, public and hybrid (a combination of public and private) cloud environments.

To address these challenges, we believe it is vital for companies to effectively accelerate IT innovation and transform and secure all of their various computing environments, while being able to deliver new services quickly based on their business needs.

Our core strengths in IT management and security, combined with our investments in innovative technologies, position us to serve a wide range of customers. We have a broad and deep portfolio of software solutions to address customer needs across computing platforms, from mainframe and distributed to virtual, cloud and mobile, and across the service lifecycle. We deliver many of these solutions on-premises and are continuing to transition and offer many of our products through a SaaS delivery model. We organize our offerings into our Mainframe Solutions, Enterprise Solutions and Services operating segments.

Beginning in fiscal 2014 we combined our Large New Enterprises and Growth Markets customer segments into a single sales coverage model to better capture market opportunities which may include smaller transaction sizes as we seek to expand our relationships with these new customers. This is in addition to our Large Existing Enterprises customer segment. These efforts are designed to accelerate new product sales outside of our contract renewal cycle. We continue to dedicate sales resources and deploy additional solutions to address opportunities to sell to new customers. In May 2013, the Company's Board of Directors approved a re-balancing plan (Fiscal 2014 Plan). The Fiscal 2014 Plan includes streamlining the Company's sales structure to eliminate redundancies while maintaining its focus on customers. In addition, the Company is consolidating its development sites into development hubs to promote collaboration and agile development process. We believe we can grow our business and increase market share by delivering differentiated technology and working through partners. We believe our customer segments allow us to better align our go-to-market initiatives with how customers want to buy. We have also implemented broad-based business initiatives to drive accountability for execution. We believe that these initiatives will benefit our performance in the long-term and allows us to sell to new customer accounts.

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EXECUTIVE SUMMARY

For the second quarter of fiscal 2014, revenue declined primarily as a result of a decrease in subscription and maintenance revenue caused by a decrease in prior fiscal years' new product and mainframe capacity sales. Within total revenue, there was a decline in enterprise solutions revenue, partially offset by an increase in mainframe solutions revenue. Total bookings increased primarily as a result of an increase in mainframe renewals. This increase was partially offset by a decrease in mainframe and enterprise new product sales. Total expenses were positively affected by lower personnel costs within selling and marketing expenses, a decrease in commissions and other operational efficiencies; however, we expect to increase our research and development spending and increase our investment in marketing in the second half of fiscal 2014. Cash flow from operations decreased year-over-year due to a number of expected factors including payments associated with the Fiscal 2014 Plan, an increase in tax payments and an increase in operating cash outflows relating to product development and enhancements as a result of the decrease in amounts capitalized for internally developed software costs.

A summary of key results for the second quarter of fiscal 2014 compared with the second quarter of fiscal 2013 is as follows:

Revenue:

Total revenue declined 1% as a result of a decrease in subscription and maintenance revenue. The decrease in subscription and maintenance revenue was partially offset by an increase in software fees and other revenue and professional services revenue.

We continue to expect a year-over-year decrease in total revenue for fiscal 2014 compared with fiscal 2013 due to our sales underperformance in fiscal 2013 and the high percentage of our revenue that is recognized from license agreements with customers signed in prior periods that are being recognized ratably.

Bookings:

Total bookings increased 5% primarily as a result of a year-over-year increase in renewals within subscription and maintenance bookings, partially offset by a decrease in professional service bookings and software fees and other bookings.

Subscription and maintenance bookings increased primarily due to higher mainframe renewals.

Our new product and mainframe capacity sales, a subset of our total bookings, decreased by a high single digit percentage.

Mainframe new product sales decreased more than 40%, while enterprise solutions new product sales decreased by a high single digit percentage. The decreases were primarily due to an uneven consumer spending environment as well as a decline in sales from certain mature product lines. Mainframe capacity sales increased more than 30%, partially related to an increase in mainframe renewals.

We continue to expect the value of our fiscal 2014 renewals to increase by a high single digit percentage, excluding a large customer renewal that is expected to occur in the second half of fiscal 2014. We expect a majority of the increase in renewal value to occur in the second half of fiscal 2014.

Expenses:

Total expenses before interest and income taxes decreased 4% primarily due to a decrease in personnel-related expenses, driven mostly by the lower number of employees within selling and marketing. This was partially offset by an increase in product development and enhancements expenses due to the decrease in the amount capitalized for internally developed software costs.

Product development and enhancements expenses are expected to increase in future periods as the amount capitalized for internally developed software costs decreases. While this would ultimately result in lower future amortization expense for these assets, we do not expect a material effect in fiscal 2014.

We currently expect an increase in product development and enhancements expenses in the second half of fiscal 2014 as compared with the first half of fiscal 2014 as we continue to focus on hiring new employees that have skills to enable us to better focus our resources on developing software products.

We also currently expect an increase in selling and marketing spending in the second half of fiscal 2014 compared with the first half of fiscal 2014 as we focus on new marketing initiatives.

Income taxes:

Income tax expense for the second quarter of fiscal 2014 and fiscal 2013 was \$106 million and \$105 million, respectively.

We expect a fiscal 2014 effective tax rate of 14%.

Diluted income per common share:

Diluted income per common share increased to \$0.53 from \$0.48, primarily due to the decrease in expenses.

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Segment results:

Mainframe Solutions revenue increased primarily due to an increase in new product sales in the first quarter of fiscal 2014, an increase in mainframe capacity sales in the first half of fiscal 2014 and improved renewal yields. The increase in operating margin for the second quarter of fiscal 2014 was primarily a result of a decrease in selling and marketing expenses, driven mostly by the lower number of employees.

Enterprise Solutions revenue decreased primarily due to a decrease in new product sales in prior periods. The increase in operating margin for the second quarter of fiscal 2014 was primarily a result of a decrease in selling and marketing expenses, driven mostly by the lower number of employees.

Services revenue increased primarily due to an increase in professional services engagements resulting from prior period bookings. Operating margin for Services increased as a result of operating efficiencies associated with the Fiscal 2014 Plan.

Cash flows from operations:

Net cash provided by operating activities decreased 2% primarily due to the payments associated with our Fiscal 2014 Plan of \$39 million and an increase in income tax payments of \$31 million, partially offset by an increase in our cash collections. In addition, there was an unfavorable effect on cash flows from operations of approximately \$30 million due to the decrease in the amount capitalized for internally developed software costs.

We expect a year-over-year decrease in cash flows from operations for fiscal 2014 compared with fiscal 2013 due to payments associated with the Fiscal 2014 Plan of over \$100 million, an increase in tax payments and an increase in operating cash outflows relating to product development and enhancements as a result of the decrease in amounts capitalized for internally developed software costs.

QUARTERLY UPDATE

In August 2013, Lauren P. Flaherty joined the Company as its Executive Vice President and Chief Marketing Officer. Ms. Flaherty previously served as Chief Marketing Officer of Juniper Networks, Inc. and Nortel Networks Corporation and prior thereto spent more than 25 years at International Business Machines Corporation in a number of senior positions.

In August 2013, we issued \$250 million of 2.875% Senior Notes due August 2018 and \$250 million of 4.500% Senior Notes due August 2023, for an aggregate principal amount of \$500 million.

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PERFORMANCE INDICATORS

Management uses several quantitative performance indicators to assess our financial results and condition. Following is a summary of the principal quantitative performance indicators that management uses to review performance:

	Second Quarter Comparison			Percent	
	Fiscal		Change	Change	
	2014	2013			
	(dollars in millions)				
Total revenue	\$1,140	\$1,152	\$(12)	(1))%
Net income	\$240	\$222	\$18	8	%
Net cash provided by operating activities	\$87	\$89	\$(2)	(2))%
Total bookings	\$877	\$837	\$40	5	%
Subscription and maintenance bookings	\$713	\$626	\$87	14	%
Weighted average subscription and maintenance license agreement duration in years	3.32	3.11	0.21	7	%
	First Half Comparison			Percent	
	Fiscal		Change	Change	
	2014	2013			
	(dollars in millions)				
Total revenue	\$2,268	\$2,297	\$(29)	(1))%
Net income	\$575	\$462	\$113	24	%
Net cash provided by operating activities	\$98	\$272	\$(174)	(64))%
Total bookings	\$1,701	\$1,390	\$311	22	%
Subscription and maintenance bookings	\$1,347	\$1,009	\$338	33	%
Weighted average subscription and maintenance license agreement duration in years	3.22	2.99	0.23	8	%

	September 30, 2013	March 31, 2013	Change From Year End	September 30, 2012	Change From Prior Year Quarter
	(in millions)				
Cash, cash equivalents and investments ⁽¹⁾	\$2,799	\$2,776	\$23	\$2,248	\$551
Total debt	\$1,779	\$1,290	\$489	\$1,294	\$485
Total expected future cash collections from committed contracts ⁽²⁾	\$4,935	\$5,173	\$(238)	\$5,117	\$(182)
Total revenue backlog ⁽²⁾	\$7,241	\$7,774	\$(533)	\$7,460	\$(219)
Total current revenue backlog ⁽²⁾	\$3,382	\$3,563	\$(181)	\$3,453	\$(71)

⁽¹⁾ At September 30, 2013 and March 31, 2013, investments were \$9 million and \$183 million, respectively. At September 30, 2012, investments were \$162 million.

⁽²⁾ Refer to the discussion in the “Liquidity and Capital Resources” section of this MD&A for additional information on expected future cash collections from committed contracts and revenue backlog.

Analyses of our performance indicators shown above and segment performance can be found in the “Results of Operations” and “Liquidity and Capital Resources” sections of this MD&A.

Total Revenue — Total revenue is the amount of revenue recognized during the reporting period from the sale of license, maintenance and professional services agreements. Amounts recognized as subscription and maintenance revenue are recognized ratably over the term of the agreement. Professional services revenue is generally recognized as the services are performed or recognized on a ratably basis over the term of the related software license. Software fees and

other revenue generally represents license fee revenue recognized at the inception of a license agreement (up-front basis) and also includes our SaaS revenue, which is recognized as services are provided.

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Total Bookings — Total bookings, or sales, includes the incremental value of all subscription, maintenance and professional services contracts and software fees and other contracts entered into during the reporting period and is generally reflective of the amount of products and services during the period that our customers have agreed to purchase from us. Revenue for bookings attributed to sales of software products for which license fee revenue is recognized on an up-front basis is reflected in “Software fees and other” in our Condensed Consolidated Statements of Operations. Generally, as we look at our total bookings, we break them into two subsets consisting of renewal bookings (bookings attributable to the renewable value of a prior contract, i.e., the maintenance value and, in the case of non-perpetual licenses, the license value) and total new product and capacity sales.

As our business strategy has evolved, our management looks within bookings at total new product and capacity sales, which we define as sales of products or mainframe capacity that are new or in addition to products or mainframe capacity previously contracted for by a customer. The amount of new product and capacity sales for a period, as currently tracked by us, requires estimation by management and has not been historically reported. Within a given period, the amount of new product and capacity sales may not be material to the change in our total bookings or revenue compared with prior periods. New product and capacity sales can be reflected as subscription and maintenance bookings in the period (for which revenue would be recognized ratably over the term of the contract) or in software fees and other bookings (which are recognized as software fees and other revenue in the current period). **Subscription and Maintenance Bookings** — Subscription and maintenance bookings is the aggregate incremental amount we expect to collect from our customers over the terms of the underlying subscription and maintenance agreements entered into during a reporting period. These amounts include the sale of products directly by us and may include additional products, services or other fees for which we have not established vendor specific objective evidence (VSOE). Subscription and maintenance bookings also includes indirect sales by distributors and volume partners, value-added resellers and exclusive representatives to end-users, where the contracts incorporate the right for end-users to receive unspecified future software products, and other contracts without these rights entered into in close proximity or contemplation of such agreements. These amounts are expected to be recognized ratably as subscription and maintenance revenue over the applicable term of the agreements. Subscription and maintenance bookings exclude the value associated with certain perpetual licenses, license-only indirect sales, SaaS offerings and professional services arrangements.

The license and maintenance agreements that contribute to subscription and maintenance bookings represent binding payment commitments by customers over periods that range generally from three to five years, although in certain cases customer commitments can be for longer or shorter periods. These current period bookings are often renewals of prior contracts that also had various durations, usually from three to five years. The amount of new subscription and maintenance bookings recorded in a period is affected by the volume, duration and value of contracts renewed during that period. Subscription and maintenance bookings typically increases in each consecutive quarter during a fiscal year, with the first quarter having the least bookings and the fourth quarter having the most bookings. However, subscription and maintenance bookings may not always follow the pattern of increasing in consecutive quarters during a fiscal year, and the quarter-to-quarter differences in subscription and maintenance bookings may vary. Given the varying durations of the contracts being renewed, year-over-year comparisons of bookings are not always indicative of the overall bookings trend.

Within bookings, we also consider the yield on our renewals. We define “renewal yield” as the percentage of the renewable value of a prior contract (i.e., the maintenance value and, in the case of non-perpetual licenses, the license value) realized in current period bookings. The renewable value of a prior contract is an estimate affected by various factors including contractual renewal terms, price increases and other conditions. Beginning with the first quarter of fiscal 2014, we no longer consider price increases after December 31, 2012 as part of the renewable value of the prior period contract. Previously, the renewable portion of a contract would have to be renewed at the previous amount plus the amount of any price increases to be deemed to be renewed at 100%. Management made this change because it believes it provides a truer measure of our ability to renew the renewable value of a prior contract. We estimate the aggregate yield for a quarter based on a review of material transactions representing a substantial majority of the dollar value of renewals during the current period. There may be no correlation between year-over-year changes in bookings and year-over-year changes in renewal yield, since renewal yield is based on the renewable value of

contracts of various durations, most of which are longer than one year.

Additionally, period-to-period changes in subscription and maintenance bookings do not necessarily correlate to changes in cash receipts. The contribution to current period revenue from subscription and maintenance bookings from any single license or maintenance agreement is relatively small, since revenue is recognized ratably over the applicable term for these agreements.

Weighted Average Subscription and Maintenance License Agreement Duration in Years — The weighted average subscription and maintenance license agreement duration in years reflects the duration of all subscription and maintenance agreements executed during a period, weighted by the total contract value of each individual agreement. Weighted average subscription and maintenance license agreement duration in years can fluctuate from period to period depending on the mix of license agreements entered into during a period. Weighted average duration information is disclosed in order to provide additional understanding of the volume of our bookings.

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Total Revenue Backlog — Total revenue backlog represents the aggregate amount we expect to recognize as revenue in the future as either subscription and maintenance revenue, professional services revenue or software fees and other revenue associated with contractually committed amounts billed or to be billed as of the balance sheet date. Total revenue backlog is composed of amounts recognized as liabilities in our Condensed Consolidated Balance Sheets as deferred revenue (billed or collected) as well as unearned amounts yet to be billed under subscription and maintenance and software fees and other agreements. Classification of amounts as current and noncurrent depends on when such amounts are expected to be earned and therefore recognized as revenue. Amounts that are expected to be earned and therefore recognized as revenue in 12 months or less are classified as current, while amounts expected to be earned in greater than 12 months are classified as noncurrent. The portion of the total revenue backlog that relates to subscription and maintenance agreements is recognized as revenue evenly on a monthly basis over the duration of the underlying agreements and is reported as subscription and maintenance revenue in our Condensed Consolidated Statements of Operations. Generally, we believe that an increase or decrease in the current portion of revenue backlog on a year-over-year basis is a favorable or unfavorable indicator of future subscription and maintenance revenue performance, respectively, due to the high percentage of our revenue that is recognized from license agreements that are already committed and being recognized ratably.

“Deferred revenue (billed or collected)” is composed of: (i) amounts received from customers in advance of revenue recognition and (ii) amounts billed but not collected for which revenue has not yet been earned.

RESULTS OF OPERATIONS

The following tables present revenue and expense line items reported in our Condensed Consolidated Statements of Operations for the second quarter and first half of fiscal 2014 and fiscal 2013 and the period-over-period dollar and percentage changes for those line items. These comparisons of past financial results are not necessarily indicative of future results.

	Second Quarter Comparison Fiscal 2014 Versus Fiscal 2013					
	2014	2013	Dollar Change	Percentage Change	Percentage of Total Revenue	
	2014	2013	2014 / 2013	2014 / 2013	2014	2013
	(dollars in millions)					
Revenue						
Subscription and maintenance	\$945	\$963	\$(18)	(2)	% 83	% 84
Professional services	97	95	2	2	8	8
Software fees and other	98	94	4	4	9	8
Total revenue	\$1,140	\$1,152	\$(12)	(1)	% 100	% 100
Expenses						
Costs of licensing and maintenance	\$73	\$69	\$4	6	% 6	% 6
Cost of professional services	88	88	—	—	8	8
Amortization of capitalized software costs	73	67	6	9	6	6
Selling and marketing	260	317	(57)	(18)	23	28
General and administrative	91	98	(7)	(7)	8	9
Product development and enhancements	145	123	22	18	13	11
Depreciation and amortization of other intangible assets	37	40	(3)	(8)	3	3
Other (gains) expenses, net	14	13	1	8	1	1
Total expenses before interest and income taxes	\$781	\$815	\$(34)	(4)	% 69	% 71
	\$359	\$337	\$22	7	% 31	% 29

Income before interest and
income taxes

Interest expense, net	13	10	3	30	1	1	
Income before income taxes	\$346	\$327	\$19	6	% 30	% 28	%
Income tax expense (benefit)	106	105	1	1	9	9	
Net income	\$240	\$222	\$18	8	% 21	% 19	%

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First Half Comparison Fiscal 2014 Versus Fiscal 2013

	2014	2013	Dollar Change 2014 / 2013	Percentage Change 2014 / 2013	Percentage of Total Revenue 2014	2013	
(dollars in millions)							
Revenue							
Subscription and maintenance	\$1,889	\$1,940	\$(51)	(3)%	83%	85%	%
Professional services	195	186	9	5	9	8	
Software fees and other	184	171	13	8	8	7	
Total revenue	\$2,268	\$2,297	\$(29)	(1)%	100%	100%	%
Expenses							
Costs of licensing and maintenance	\$144	\$138	\$6	4	6%	6%	%
Cost of professional services	176	174	2	1	8	8	
Amortization of capitalized software costs	142	131	11	8	6	6	
Selling and marketing	541	622	(81)	(13)	24	27	
General and administrative	182	208	(26)	(13)	8	9	
Product development and enhancements	280	248	32	13	12	11	
Depreciation and amortization of other intangible assets	73	81	(8)	(10)	3	4	
Other (gains) expenses, net	143	(23)	166	NM	6	(1))
Total expenses before interest and income taxes	\$1,681	\$1,579	\$102	6	74%	69%	%
Income before interest and income taxes	\$587	\$718	\$(131)	(18)%	26%	31%	%
Interest expense, net	24	21	3	14	1	1	
Income before income taxes	\$563	\$697	\$(134)	(19)%	25%	30%	%
Income tax expense (benefit)	(12)	235	(247)	(105)	(1)	10)
Net income	\$575	\$462	\$113	24	25%	20%	%

Note: Amounts may not add to their respective totals due to rounding.

Revenue**Total Revenue**

As more fully described below, the decrease in total revenue in the second quarter and first half of fiscal 2014 compared with the second quarter and first half of fiscal 2013 was primarily attributable to a decrease in subscription and maintenance revenue. The decrease in subscription and maintenance revenue was partially offset by an increase in software fees and other revenue and professional services revenue. There was also an unfavorable foreign exchange effect of \$9 million and \$18 million for the second quarter and first half of fiscal 2014, respectively.

Due to our sales performance in fiscal 2013, we continue to expect a year-over-year decrease in total revenue for fiscal 2014 compared with fiscal 2013 due to the high percentage of our revenue that is recognized from license agreements with customers signed in prior periods that are being recognized ratably.

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Subscription and Maintenance

Subscription and maintenance revenue is the amount of revenue recognized ratably during the reporting period from: (i) subscription license agreements that were in effect during the period, generally including maintenance that is bundled with and not separately identifiable from software usage fees or product sales, (ii) maintenance agreements associated with providing customer technical support and access to software fixes and upgrades that are separately identifiable from software usage fees or product sales, and (iii) license agreements bundled with additional products, maintenance or professional services for which VSOE has not been established. These amounts include the sale of products directly by us, as well as by distributors and volume partners, value-added resellers and exclusive representatives to end-users, where the contracts incorporate the right for end-users to receive unspecified future software products, and other contracts entered into in close proximity or contemplation of such agreements.

The decrease in subscription and maintenance revenue in the second quarter and first half of fiscal 2014 compared with the second quarter and first half of fiscal 2013 was primarily attributable to a decrease in prior period new product and mainframe capacity sales. For the second quarter of fiscal 2014, this unfavorable effect of prior period sales was partially offset by an increase in mainframe new product and capacity sales during the first quarter of fiscal 2014. In addition, the increased percentage of bookings recognized as software fees and other revenue during fiscal 2013 had an unfavorable effect on subscription and maintenance revenue. If the percentage of these bookings increases in the future, this will continue to have an unfavorable effect on subscription and maintenance revenue. There was also an unfavorable foreign exchange effect of \$6 million and \$14 million for the second quarter and first half of fiscal 2014, respectively.

Professional Services

Professional services revenue primarily includes product implementation, consulting, customer training and customer education. Professional services revenue for the second quarter of fiscal 2014 increased slightly compared with the second quarter of fiscal 2013 primarily due to an increase in professional services engagements resulting from prior period bookings. Professional services revenue for the first half of fiscal 2014 increased compared with the first half of fiscal 2013 due to an increase in utilization of technicians leading to additional billable time on professional service engagements in the first quarter of fiscal 2014.

Software Fees and Other

Software fees and other revenue consists primarily of revenue that is recognized on an up-front basis. This includes revenue associated with enterprise solutions products sold on an up-front basis directly by our sales force or through transactions with distributors and volume partners, value-added resellers and exclusive representatives (sometimes referred to as our “indirect” or “channel” revenue). It also includes our SaaS revenue, which is recognized as the services are provided, generally ratably over the term of the SaaS arrangement, rather than up-front.

Software fees and other revenue increased slightly for the second quarter of fiscal 2014 compared with the second quarter of fiscal 2013 primarily as a result of an increase in revenue from our SaaS offerings.

Software fees and other revenue increased for the first half of fiscal 2014 compared with the first half of fiscal 2013 in part due to an increase in revenue from our SaaS offerings, an increase in the sale of enterprise solutions products including product sales from our recent acquisitions recognized on an upfront basis and non re-occurring fees which have been recognized as other revenue.

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Total Revenue by Geography

The following tables present the amount of revenue earned from sales to unaffiliated customers in the United States and international regions and corresponding percentage changes for the second quarter and first half of fiscal 2014 and the second quarter and first half of fiscal 2013.

Second Quarter Comparison Fiscal 2014 Versus Fiscal 2013						
	2014	%	2013	%	Dollar Change	Percentage Change
	(dollars in millions)					
United States	\$687	60	% \$685	59	% \$2	—
International	453	40	467	41	(14	) (3
Total Revenue	\$1,140	100	% \$1,152	100	% \$(12	) (1
	First Half Comparison Fiscal 2014 Versus Fiscal 2013					
	2014	%	2013	%	Dollar Change	Percentage Change
	(dollars in millions)					
United States	\$1,360	60	% \$1,368	60	% \$(8	) (1
International	908	40	929	40	(21	) (2
Total Revenue	\$2,268	100	% \$2,297	100	% \$(29	) (1

Revenue in the United States increased by \$2 million, or less than 1%, for the second quarter of fiscal 2014 compared with the second quarter of fiscal 2013. International revenue decreased by \$14 million, or 3%, for the second quarter of fiscal 2014 compared with the second quarter of fiscal 2013. The decrease was primarily due to an unfavorable foreign exchange effect of \$9 million and a decrease in subscription and maintenance revenue, partially offset by an increase in software fees and other revenue.

Revenue in the United States decreased by \$8 million, or 1%, for the first half of fiscal 2014 compared with the first half of fiscal 2013 primarily due to a decrease in subscription and maintenance revenue. International revenue decreased by \$21 million, or 2%, for the first half of fiscal 2014 compared with the first half of fiscal 2013. The decrease was primarily due to an unfavorable foreign exchange effect of \$18 million and a decrease in subscription and maintenance revenue, partially offset by an increase in software fees and other revenue.

Price changes do not have a material effect on revenue in a given period as a result of our ratable subscription model.

Expenses
Operating expenses for the second quarter of fiscal 2014 decreased compared with the second quarter of fiscal 2013 primarily as a result of a decrease in selling and marketing expenses, partially offset by an increase in product development and enhancements expenses.

Operating expenses for the first half of fiscal 2014 increased compared with the first half of fiscal 2013 primarily as a result of our Fiscal 2014 Plan announced in May 2013. The Fiscal 2014 Plan comprises the termination of more than 1,200 employees and global facilities consolidations. We intend to fill most of the positions involved in the re-balancing over the next 12 months with new employees that have skills to enable us to better focus our resources on priority products and market segments. The Fiscal 2014 Plan includes streamlining our sales structure to eliminate redundancies while maintaining our focus on customers. In addition, we are consolidating our development sites into development hubs to promote collaboration and agile development. Actions under the Fiscal 2014 Plan are expected to be substantially completed by the end of fiscal 2014. Costs associated with the Fiscal 2014 Plan are included in the other (gains) expenses, net line of our Condensed Consolidated Statements of Operations. Operating expenses for the first half of fiscal 2014 were also unfavorably affected by an increase in product development and enhancements expenses. Partially offsetting these increases in operating expenses was a decrease in selling and marketing expenses, primarily driven by the lower number of employees, and a decrease in general and administrative expenses. In the first quarter of fiscal 2013, there was \$35 million of income from an intellectual property transaction recognized in "Other (gains) expenses, net." We currently expect an increase in product development and enhancements expenses in the second half of fiscal 2014 as compared with the first half of fiscal 2014 as we continue to focus on hiring new employees that have skills to enable us to better focus our resources on developing software products. We also

currently expect an increase in selling and marketing expenses in the second half of fiscal 2014 compared with the first half of fiscal 2014 as we focus on our marketing initiatives.

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Costs of Licensing and Maintenance

Costs of licensing and maintenance include technical support, royalties, and other manufacturing and distribution costs. The increase in costs of licensing and maintenance in the second quarter of fiscal 2014 compared with the second quarter of fiscal 2013 was primarily attributable to the addition of technical support personnel in connection with the Fiscal 2014 Plan and an increase in royalties from the sale of products that include third party licenses for the second quarter of fiscal 2014. The increase in costs of licensing and maintenance in the first half of fiscal 2014 compared with the first half of fiscal 2013 was primarily attributable to the addition of technical support personnel in connection with the Fiscal 2014 Plan.

Cost of Professional Services

Cost of professional services consists primarily of our personnel-related costs associated with providing professional services and training to customers. Cost of professional services for the second quarter of fiscal 2014 was consistent with the second quarter of fiscal 2013. Cost of professional services for the first half of fiscal 2014 increased slightly compared with the first half of fiscal 2013. Operating margin for professional services increased to 9% for the second quarter of fiscal 2014 compared with 7% for the second quarter of fiscal 2013. Operating margin for professional services increased to 10% for the first half of fiscal 2014 compared with 6% for the first half of fiscal 2013. The increase in operating margin for professional services was primarily attributable to operating efficiencies associated with the Fiscal 2014 Plan.

Operating margin for professional services does not include certain additional costs that are allocated to the Services segment (see "Performance of Segments" below).

Amortization of Capitalized Software Costs

Amortization of capitalized software costs consists of the amortization of both purchased software and internally generated capitalized software development costs. Internally generated capitalized software development costs relate to new products and significant enhancements to existing software products that have reached the technological feasibility stage.

The increase in amortization of capitalized software costs for the second quarter and first half of fiscal 2014 compared with the second quarter and first half of fiscal 2013 was primarily due to the increase in software development projects that have reached general availability in recent periods and amortization from assets acquired from recent acquisitions. As previously disclosed in our Fiscal 2013 Form 10-K, our product offerings and go-to-market strategy are evolving to include solutions and product suites that may be delivered either on-premises or via SaaS or cloud platforms. We expect our product offerings to become available to customers at more frequent intervals than our historical release cycles. We also expect a more extensive adoption of agile development methodologies, which are characterized by a more dynamic development process with more frequent revisions to a product release's features and functions as the software is being developed. We expect that these factors will result in us commencing capitalization much later in the development life cycle. As a result, product development and enhancements expenses are expected to increase in future periods as the amount capitalized for internally developed software costs decreases. While this would ultimately result in lower future amortization expense for these assets, we do not expect a material effect in fiscal 2014.

Selling and Marketing

Selling and marketing expenses include the costs relating to our sales force, channel partners, corporate and business marketing and customer training programs. For the second quarter of fiscal 2014, the decrease in selling and marketing expenses compared with the second quarter of fiscal 2013 was primarily attributable to a decrease in personnel-related costs of \$49 million due to a reduced headcount as a result of the Fiscal 2014 Plan and prior year actions and a decrease in commissions expense due to the lower new sales and service bookings during the second quarter of fiscal 2014.

For the first half of fiscal 2014, the decrease in selling and marketing expenses compared with the first half of fiscal 2013 was primarily attributable to a decrease in personnel-related costs of \$79 million due to a reduced headcount as a result of the Fiscal 2014 Plan and prior year actions and a decrease in commissions expense due to lower new sales and service bookings during the second quarter of fiscal 2014.

We currently expect an increase in selling and marketing expenses in the second half of fiscal 2014 compared with the first half of fiscal 2014 as we focus on our marketing initiatives.

General and Administrative

General and administrative expenses include the costs of corporate and support functions, including our executive leadership and administration groups, finance, legal, human resources, corporate communications and other costs such as provisions for doubtful accounts. For the second quarter of fiscal 2014, general and administrative expenses decreased compared with the second quarter of fiscal 2013, primarily due to a decrease in costs associated with external consultants of \$6 million and a decrease in personnel-related costs, partially offset by other non re-occurring items.

For the first half of fiscal 2014, general and administrative expenses decreased compared with the first half of fiscal 2013, primarily due to a decrease in costs associated with external consultants of \$10 million, a decrease in personnel-related costs and other non re-occurring items.

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Product Development and Enhancements

For the second quarters of fiscal 2014 and fiscal 2013, product development and enhancements expenses represented 13% and 11% of total revenue, respectively. The increase in product development and enhancements expenses was primarily attributable to the decrease in capitalized software development costs of \$34 million (see “Amortization of Capitalized Software Costs” above), offset by a decrease in personnel-related costs from a reduced headcount as a result of the Fiscal 2014 Plan and prior year actions.

For the first half of fiscal 2014 and fiscal 2013, product development and enhancements expenses represented 12% and 11% of total revenue, respectively. The increase in product development and enhancements expenses was primarily attributable to the decrease in capitalized software development costs of \$47 million (see “Amortization of Capitalized Software Costs” above), offset by a decrease in personnel-related costs from a reduced headcount as a result of the Fiscal 2014 Plan and prior year actions.

Product development and enhancements expenses are expected to increase in future periods as the amount of capitalized software development costs decreases (see “Amortization of Capitalized Software Costs” above). We currently expect an increase in product development and enhancements expenses in the second half of fiscal 2014 as compared with the first half of fiscal 2014 as we continue to focus on hiring new employees that have skills to enable us to better focus our resources on developing software products.

Depreciation and Amortization of Other Intangible Assets

The decrease in depreciation and amortization of other intangible assets for the second quarter and first half of fiscal 2014 compared with the second quarter and first half of fiscal 2013 was due to the decline in depreciation expense, primarily as a result of property and equipment that became fully depreciated in the first quarter of fiscal 2014.

Other (Gains) Expenses, Net

Other (gains) expenses, net includes gains and losses attributable to divested assets, foreign exchange derivative contracts, foreign currency exchange rate fluctuations, impairment charges, costs associated with the Fiscal 2014 Plan, costs associated with prior period restructuring actions, legal settlements and other miscellaneous items. Foreign exchange derivative contracts are used to mitigate our operating risks and exposure to foreign currency exchange rates. The summary of other (gains) expense, net is as follows:

	Second Quarter Fiscal 2014	Second Quarter Fiscal 2013	
	(dollars in millions)		
Fiscal 2014 Plan	\$2	\$—	
Legal Settlements	6	2	
(Gains) losses from foreign exchange derivative contracts	(6	) 2
(Gains) losses from foreign exchange rate fluctuations	13	9	
Other miscellaneous items	(1) —	
Total	\$14	\$13	
	First Half Fiscal 2014	First Half Fiscal 2013	
	(dollars in millions)		
Fiscal 2014 Plan	\$122	\$—	
Legal Settlements	16	6	
(Gains) losses from foreign exchange derivative contracts	(15	) 10
(Gains) losses from foreign exchange rate fluctuations	20	(3)
Assignment of rights to intellectual property	—	(35)
Other miscellaneous items	—	(1)
Total	\$143	\$(23)

For the first half of fiscal 2013, other (gains) expenses, net included a transaction in the first quarter of fiscal 2013 to assign the rights of certain of our intellectual property assets to a large technology company for \$35 million as part of an effort to more fully utilize our intellectual property assets. We will continue to have the ability to use these intellectual property assets in current and future product offerings.

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Interest Expense, Net

Interest expense, net for the second quarter and first half of fiscal 2014 increased slightly compared with the second quarter and first half of fiscal 2013 as a result of our debt offering during the second quarter of fiscal 2014 (see "Debt Obligations" below).

Income Taxes

Income tax expense for the second quarter of fiscal 2014 was \$106 million and income tax benefit for the first half of fiscal 2014 was \$12 million, compared with income tax expense of \$105 million and \$235 million for the second quarter and first half of fiscal 2013, respectively. For the first half of fiscal 2014, the Company recognized a net discrete tax benefit of approximately \$179 million, resulting primarily from the resolutions of uncertain tax positions upon the completion of the examination of our U.S. federal income tax returns for the tax years ended March 31, 2005, 2006 and 2007.

Our estimated annual effective tax rate, which excludes the impact of discrete items, for the first half of fiscal 2014 and fiscal 2013 was 29.7% and 33.0%, respectively. Legislative changes in tax laws, the outcome of tax audits and any other changes in potential tax liabilities may result in additional tax expense or benefit in fiscal 2014, which are not considered in our estimated annual effective tax rate. While we do not currently view any such items as individually material to the results of our consolidated financial position or results of operations, the impact of certain items may yield additional tax expense or benefit in the remaining quarters of fiscal 2014 and we are anticipating a fiscal 2014 effective tax rate of 14%, which includes the impact of the aforementioned completion of the examination. The completion of the examination of our U.S. federal income tax returns for the tax years ended March 31, 2005, 2006 and 2007 resulted in a reduction of \$221 million in our uncertain tax positions as disclosed in Note 15, "Income Taxes" of our Fiscal 2013 Form 10-K. We received a cash refund of approximately \$70 million upon the completion of this examination.

Performance of Segments

Our Mainframe Solutions and Enterprise Solutions operating segments comprise our software business organized by the nature of our software offerings and the platform on which the products operate. The Services operating segment comprises implementation, consulting, education and training services, including those directly related to the Mainframe Solutions and Enterprise Solutions software that we sell to our customers.

Segment expenses do not include share-based compensation expense; amortization of purchased software; amortization of other intangible assets; certain foreign exchange derivative hedging gains and losses; costs associated with the Fiscal 2014 Plan; and other miscellaneous costs. Additionally, starting in the first quarter of fiscal 2014, the measure of segment expenses and segment profit was revised by the Chief Operating Decision Maker, who is our Chief Executive Officer, to treat all costs of internal software development as segment expense in the period the costs are incurred and as a result, we will add back capitalized internal software costs and exclude amortization of internally developed software costs previously capitalized from segment expenses. Prior period segment expense and profit information has been revised to present segment profit and expense on consistent basis.

Segment financial information for the second quarter and first half of fiscal 2014 and fiscal 2013 is as follows:

Mainframe Solutions

	Second Quarter Fiscal 2014	Second Quarter Fiscal 2013
	(dollars in millions)	
Revenue	\$624	\$619
Expenses	228	250
Segment profit	\$396	\$369
Segment operating margin	63	% 60
	First Half Fiscal 2014	First Half Fiscal 2013
	(dollars in millions)	
Revenue	\$1,243	\$1,247
Expenses	470	511

Segment profit	\$773	\$736	
Segment operating margin	62	% 59	%

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For the second quarter of fiscal 2014, Mainframe Solutions revenue increased from the year-ago period primarily due to an increase in new product sales from the first quarter of fiscal 2014, mainframe capacity sales in the first half of fiscal 2014 and improved renewal yields. There was also an unfavorable foreign exchange effect of \$3 million compared with the year-ago period. The increase in operating margin for the second quarter of fiscal 2014 was primarily a result of a decrease in selling and marketing expenses, driven mostly by the lower number of employees. For the first half of fiscal 2014, Mainframe Solutions revenue decreased from the year-ago period primarily due to an unfavorable foreign exchange effect of \$9 million. Excluding the effect of foreign exchange, Mainframe Solutions would have increased slightly as a result of the increase in new product sales from the first quarter of fiscal 2014, increased mainframe capacity sales from the first half of fiscal 2014 and improved renewal yields. The increase in operating margin for the first half of fiscal 2014 was primarily a result of a decrease in selling and marketing and general and administrative expenses.

Enterprise Solutions

	Second Quarter Fiscal 2014	Second Quarter Fiscal 2013	
	(dollars in millions)		
Revenue	\$419	\$438	
Expenses	357	409	
Segment profit	\$62	\$29	
Segment operating margin	15	% 7	%
	First Half Fiscal 2014	First Half Fiscal 2013	
	(dollars in millions)		
Revenue	\$830	\$864	
Expenses	727	766	
Segment profit	\$103	\$98	
Segment operating margin	12	% 11	%

Enterprise Solutions revenue for the second quarter of fiscal 2014 decreased compared with the year-ago period primarily due to a decrease in new product sales in prior periods. There was also an unfavorable foreign exchange effect of \$4 million compared with the year-ago period. Enterprise Solutions operating margin for the second quarter of fiscal 2014 increased compared with the year-ago period as a result of a decrease in selling and marketing expenses during the second quarter of fiscal 2014, driven mostly by the lower number of employees.

Enterprise Solutions revenue for the first half of fiscal 2014 decreased compared with the year-ago period primarily due to a decrease in new product sales in prior periods. There was also an unfavorable foreign exchange effect of \$8 million compared with the year-ago period. Enterprise Solutions operating margin for the first half of fiscal 2014 increased as a result of the decrease in selling and marketing and general administrative expenses during the first half of fiscal 2014. The first half of fiscal 2013 included income from the aforementioned \$35 million intellectual property transaction, which contributed four percentage points to operating margin in the first half of fiscal 2013.

Services

	Second Quarter Fiscal 2014	Second Quarter Fiscal 2013	
	(dollars in millions)		
Revenue	\$97	\$95	
Expenses	88	89	
Segment profit	\$9	\$6	
Segment operating margin	9	% 6	%

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	First Half Fiscal 2014	First Half Fiscal 2013	
	(dollars in millions)		
Revenue	\$195	\$186	
Expenses	178	176	
Segment profit	\$17	\$10	
Segment operating margin	9	% 5	%

Services revenue for the second quarter of fiscal 2014 increased from the second quarter of fiscal 2013 primarily due to an increase in professional services engagements resulting from prior period bookings. Services revenue for the first half of fiscal 2014 increased from the first half of fiscal 2013 due to an increase in utilization of technicians leading to additional billable time on professional service engagements in the first quarter of fiscal 2014. Operating margin for Services increased in the second quarter and first half of fiscal 2014 compared with the second quarter and first of fiscal 2013 as a result of operating efficiencies associated with the Fiscal 2014 Plan.

Refer to Note P, "Segment Information," in the Notes to the Condensed Consolidated Financial Statements for additional information.

Bookings

Total Bookings

For the second quarter of fiscal 2014 and 2013, total bookings were \$877 million and \$837 million, respectively. The increase in bookings was primarily due to a year-over-year increase in mainframe renewals within subscription and maintenance bookings, partially offset by a decrease in professional service bookings mostly due to the shorter duration of government contracts and software fees and other bookings.

Total bookings in the second quarter of fiscal 2014 compared with the year-ago period increased for Europe, Middle East and Africa, primarily due to a large renewal during the second quarter of fiscal 2014. This increase was partially offset by decreases in the Latin America and Asia Pacific Japan regions.

Mainframe renewals, and to a lesser extent, enterprise solutions renewals, increased year-over-year.

Total new product and mainframe capacity sales, a subset of our total bookings, decreased by a high single digit percentage in the second quarter of fiscal 2014 compared with the second quarter of fiscal 2013. Mainframe new product sales decreased more than 40%, while enterprise solutions new product sales decreased by a high single digit percentage. Mainframe and enterprise solutions new product sales decreased in the second quarter of fiscal 2014 compared with the second quarter of fiscal 2013, primarily due to an uneven consumer spending environment as well as a decline in sales from certain mature product lines. Mainframe capacity sales increased more than 30% compared with the second quarter of fiscal 2013, partially related to an increase in mainframe renewals. Total new product and mainframe capacity sales decreased in all regions, except the Europe, Middle East and Africa region.

For the first half of fiscal 2014 and 2013, total bookings were \$1,701 million and \$1,390 million, respectively. The increase in bookings was primarily due to a year-over-year increase in subscription and maintenance bookings, partially offset by a decrease in professional services bookings and software fees and other bookings.

Total bookings in the first half of fiscal 2014 compared with the year-ago period increased in all regions, except in the Latin America region.

Generally, quarters with smaller renewal inventories result in a lower level of bookings both because renewal bookings will be lower and, to a lesser extent, because renewals also remain an important selling opportunity for new products.

Total new product and mainframe capacity sales in the first half of fiscal 2014 decreased by a low single digit percentage compared with the first half of fiscal 2013. Mainframe and enterprise solutions new product sales decreased in the first half of fiscal 2014 compared with the first half of fiscal 2013. Mainframe capacity sales increased in the first half of fiscal 2014 compared with the first half of fiscal 2013, primarily due to an increase in mainframe renewals.

For the first half of fiscal 2014 compared with the first half of fiscal 2013, new product and capacity sales decreased in Latin America, and to a lesser extent, decreased in the United States. This decrease was partially offset by an increase in the Europe, Middle East and Africa and Asia Pacific Japan regions. During the first quarter of fiscal 2013, bookings

performance was unexpectedly disrupted by our efforts to align our sales force to execute our customer segmented go-to-market initiative.

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Subscription and Maintenance Bookings

For the second quarter of fiscal 2014 and fiscal 2013, subscription and maintenance bookings were \$713 million and \$626 million, respectively. The increase in subscription and maintenance bookings was primarily attributable to higher mainframe renewals.

During the second quarter of fiscal 2014, we executed a total of 12 license agreements with incremental contract values in excess of \$10 million each, for an aggregate contract value of \$320 million. During the second quarter of fiscal 2013, we executed a total of 10 license agreements with incremental contract values in excess of \$10 million each, for an aggregate contract value of \$232 million. Renewal bookings, which generally do not include new product and capacity sales and professional services arrangements, for the second quarter of fiscal 2014 increased by approximately 20% compared with the second quarter of fiscal 2013. This increase was primarily due to a higher dollar value of scheduled contract renewals in the second quarter of fiscal 2014 compared with fiscal 2013 and also was a result of several renewals closing prior to their scheduled expiration dates. The majority of the renewals for the second quarter of fiscal 2014 were in the Mainframe segment. For the second quarter of fiscal 2014, our percentage renewal yield was in the low 90 percent range. There was not a material difference between this renewal yield percentage and the renewal yield percentage as it would have been calculated under our previous methodology. We continue to expect the value of our fiscal 2014 renewals to increase by a percentage in the high single digits, excluding a large customer renewal that is expected to occur in the second half of fiscal 2014. We expect a majority of the increase in renewal value to occur in the second half of fiscal 2014.

For the first half of fiscal 2014 and fiscal 2013, subscription and maintenance bookings were \$1,347 million and \$1,009 million, respectively. The increase in subscription and maintenance bookings was primarily attributable to higher mainframe renewals.

Annualized subscription and maintenance bookings is an indicator that normalizes the bookings recorded in the current period to account for contract length. It is calculated by dividing the total value of all new subscription and maintenance license agreements entered into during a period by the weighted average subscription and license agreement duration in years for all such subscription and maintenance license agreements recorded during the same period. For the second quarter of fiscal 2014, annualized subscription and maintenance bookings increased from \$201 million in the prior year period to \$215 million. The increase in annualized subscription and maintenance bookings was primarily a result of our increase in subscription and maintenance bookings, as described above. The weighted average subscription and maintenance license agreement duration in years increased from 3.11 in the second quarter of fiscal 2013 to 3.32 in the second quarter of fiscal 2014. This increase was primarily attributable a larger number and dollar value of large contract renewals in the second quarter of fiscal 2014 compared with the second quarter of fiscal 2013.

Although each contract is subject to terms negotiated by the respective parties, we do not currently expect the weighted average subscription and maintenance agreement duration in years to change materially from historical levels for end-user contracts.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalent balances are held in numerous locations throughout the world, with 59% held in our subsidiaries outside the United States at September 30, 2013. Cash and cash equivalents totaled \$2,790 million at September 30, 2013, representing an increase of \$197 million from the March 31, 2013 balance of \$2,593 million. The increase in cash was primarily a result of cash received from our August 2013 debt offering and maturities of short-term investments, offset by cash paid for acquisitions, cash dividends and repurchases of our common stock. During the first half of fiscal 2014, there was a \$36 million favorable translation effect from foreign currency exchange rates on cash held outside the United States in currencies other than the U.S. dollar.

Although 59% of our cash and cash equivalents is held by foreign subsidiaries, we currently neither intend nor expect a need to repatriate these funds to the United States in the foreseeable future. We expect existing domestic cash, cash equivalents and cash flows from operations to be sufficient to fund our domestic operating activities and our investing and financing activities, including, among other things, the payment of regular quarterly dividends, compliance with our debt repayment schedules, repurchases of our common stock and the funding for capital expenditures, for at least

the next 12 months and for the foreseeable future thereafter. In addition, we expect existing foreign cash, cash equivalents and cash flows from foreign operations to be sufficient to fund our foreign operating activities and investing activities, including, among other things, the funding for capital expenditures, acquisitions and research and development, for at least the next 12 months and for the foreseeable future thereafter.

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Sources and Uses of Cash

Under our subscription and maintenance agreements, customers generally make installment payments over the term of the agreement, often with at least one payment due at contract execution, for the right to use our software products and receive product support, software fixes and new products when available. The timing and actual amounts of cash received from committed customer installment payments under any specific agreement can be affected by several factors, including the time value of money and the customer's credit rating. Often, the amount received is the result of direct negotiations with the customer when establishing pricing and payment terms. In certain instances, the customer negotiates a price for a single up-front installment payment and seeks its own internal or external financing sources. In other instances, we may assist the customer by arranging financing on the customer's behalf through a third-party financial institution. Alternatively, we may decide to transfer our rights to the future committed installment payments due under the license agreement to a third-party financial institution in exchange for a cash payment. Once transferred, the future committed installments are payable by the customer to the third-party financial institution. Whether the future committed installments have been financed directly by the customer with our assistance or by the transfer of our rights to future committed installments to a third party, these financing agreements may contain limited recourse provisions with respect to our continued performance under the license agreements. Based on our historical experience, we believe that any liability that we may incur as a result of these limited recourse provisions will be immaterial.

Amounts billed or collected as a result of a single installment for the entire contract value, or a substantial portion of the contract value, rather than being invoiced and collected over the life of the license agreement, are reflected in the liability section of our Condensed Consolidated Balance Sheets as "Deferred revenue (billed or collected)." Amounts received from either a customer or a third-party financial institution that are attributable to later years of a license agreement have a positive impact on billings and cash provided by operating activities in the current period.

Accordingly, to the extent these collections are attributable to the later years of a license agreement, billings and cash provided by operating activities during the license's later years will be lower than if the payments were received over the license term. We are unable to predict with certainty the amount of cash to be collected from single installments for the entire contract value, or a substantial portion of the contract value, under new or renewed license agreements to be executed in future periods.

For the second quarter of fiscal 2014, gross receipts related to single installments for the entire contract value, or a substantial portion of the contract value, were \$91 million compared with \$95 million for the second quarter of fiscal 2013.

In any quarter, we may receive payments in advance of the contractually committed date on which the payments were otherwise due. In limited circumstances, we may offer discounts to customers to ensure payment in the current period of invoices that have been billed, but might not otherwise be paid until a subsequent period because of payment terms. Historically, any such discounts have not been material.

Amounts due from customers from our subscription licenses are offset by deferred revenue related to these license agreements, leaving no or minimal net carrying value on our Condensed Consolidated Balance Sheets for those amounts. The fair value of these amounts may exceed or be less than this carrying value but cannot be practically assessed since there is no existing market for a pool of customer receivables with contractual commitments similar to those owned by us. The actual fair value may not be known until these amounts are sold, securitized or collected. Although these customer license agreements commit the customer to payment under a fixed schedule, to the extent amounts are not yet due and payable by the customer, the agreements are considered executory in nature due to our ongoing commitment to provide maintenance and unspecified future software products as part of the agreement terms. We can estimate the total amounts to be billed from committed contracts, referred to as our "billings backlog," and the total amount to be recognized as revenue from committed contracts, referred to as our "revenue backlog." The aggregate amounts of our billings backlog and trade receivables already reflected in our Condensed Consolidated Balance Sheets represent the amounts we expect to collect in the future from committed contracts.

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(in millions)	September 30, 2013	March 31, 2013	September 30, 2012
Billings backlog:			
Amounts to be billed – current	\$2,101	\$2,142	\$2,179
Amounts to be billed – noncurrent	2,246	2,175	2,354
Total billings backlog	\$4,347	\$4,317	\$4,533
Revenue backlog:			
Revenue to be recognized within the next 12 months – current	\$3,382	\$3,563	\$3,453
Revenue to be recognized beyond the next 12 months – noncurrent	3,859	4,211	4,007
Total revenue backlog	\$7,241	\$7,774	\$7,460
Deferred revenue (billed or collected)	\$2,894	\$3,457	\$2,927
Unearned revenue yet to be billed	4,347	4,317	4,533
Total revenue backlog	\$7,241	\$7,774	\$7,460

Note: Revenue backlog includes deferred subscription and maintenance, professional services and software fees and other revenue.

We can also estimate the total cash to be collected in the future from committed contracts, referred to as our “Expected future cash collections,” by adding the total billings backlog to the trade accounts receivable, which represent amounts already billed but not collected, from our Condensed Consolidated Balance Sheets.

(in millions)	September 30, 2013	March 31, 2013	September 30, 2012
Expected future cash collections:			
Total billings backlog	\$4,347	\$4,317	\$4,533
Trade accounts receivable, net	588	856	584
Total expected future cash collections	\$4,935	\$5,173	\$5,117

The increase in billings backlog at September 30, 2013 compared with March 31, 2013 was primarily a result of our overall renewals bookings increase in the first half of fiscal 2014. The decrease in billings backlog at September 30, 2013 compared with September 30, 2012 was primarily a result of our overall bookings decrease in fiscal 2013 and the timing of our fiscal 2014 renewals, partially offset by the increase in bookings for the first half of fiscal 2014.

The decrease in expected future cash collections at September 30, 2013 compared with March 31, 2013 was primarily driven by a decrease in trade accounts receivable. The decrease in expected future cash collections at September 30, 2013 compared with September 30, 2012 was primarily driven by the decrease in billings backlog as described above. The decrease in total revenue backlog at September 30, 2013 compared with March 31, 2013 and September 30, 2012 was primarily a result of our overall bookings decrease in fiscal 2013 and the timing of our fiscal 2014 renewals, partially offset by the increase in bookings for the first half of fiscal 2014.

Revenue to be recognized in the next 12 months decreased by 5% at September 30, 2013 compared with March 31, 2013. Excluding the effect of foreign exchange, revenue to be recognized in the next 12 months decreased by 5% at September 30, 2013 compared with March 31, 2013.

Revenue to be recognized in the next 12 months decreased by 2% at September 30, 2013 compared with September 30, 2012. Excluding the effect of foreign exchange, revenue to be recognized in the next 12 months decreased by 2% at September 30, 2013 compared with September 30, 2012.

We continue to expect our renewal portfolio for fiscal 2014 will be more heavily weighted to the second half of fiscal 2014. We expect that the current revenue backlog will begin to increase in the second half of fiscal 2014 in connection with an increase in our renewal portfolio, which includes an expected large customer renewal.

Generally, we believe that a change in the current portion of revenue backlog on a year-over-year basis is an indicator of future subscription and maintenance revenue performance due to the high percentage of our revenue that is recognized from license agreements that are already committed and being recognized ratably.

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Cash Provided by Operating Activities

	Second Quarter of Fiscal		Change	
	2014	2013	2014 / 2013	
	(in millions)			
Cash collections from billings ⁽¹⁾	\$883	\$836	\$47	
Vendor disbursements and payroll ⁽¹⁾	(701	) (708	) 7
Income tax (payments) receipts, net	(56) (25) (31)
Other disbursements, net ⁽²⁾	(39) (14) (25)
Net cash provided by operating activities	\$87	\$89	\$(2)

(1) Amounts include value added taxes and sales taxes.

For the second quarter of fiscal 2014, amount includes \$39 million of payments associated with the Fiscal 2014

(2) Plan, interest, prior period restructuring plans and miscellaneous receipts and disbursements. For the second quarter of fiscal 2013, amount includes interest, restructuring payments and miscellaneous receipts and disbursements.

	First Half of Fiscal		Change	
	2014	2013	2014 / 2013	
	(in millions)			
Cash collections from billings ⁽¹⁾	\$2,048	\$2,015	\$33	
Vendor disbursements and payroll ⁽¹⁾	(1,600	) (1,626	) 26
Income tax (payments) receipts, net	(255) (150) (105)
Other disbursements, net ⁽²⁾	(95) 33	(128)
Net cash provided by operating activities	\$98	\$272	\$(174)

(1) Amounts include value added taxes and sales taxes.

For the first half of fiscal 2014, amount includes \$62 million of payments associated with the Fiscal 2014 Plan, interest, prior period restructuring plans and miscellaneous receipts and disbursements. For the first half of fiscal

(2) 2013, amount includes interest, restructuring payments and \$35 million in cash proceeds received from the aforementioned intellectual property transaction in the first quarter of fiscal 2013 and miscellaneous receipts and disbursements.

Second Quarter Comparison Fiscal 2014 Versus Fiscal 2013

Operating Activities:

Net cash provided by operating activities for the second quarter of fiscal 2014 was \$87 million, representing a decrease of \$2 million compared with the second quarter of fiscal 2013. Net cash provided by operating activities was unfavorably affected by payments associated with the Fiscal 2014 Plan of \$39 million and the decrease in the amount capitalized for internally developed software costs of approximately \$30 million. In addition, there was an unfavorable effect from an increase in income tax payments of \$31 million, which includes an income tax refund received in the second quarter of fiscal 2014. These unfavorable effects were partially offset by an increase in our cash collections.

Investing Activities:

Net cash used in investing activities for the second quarter of fiscal 2014 was \$44 million compared with \$213 million for the second quarter of fiscal 2013. The decrease was primarily due to the cash paid for purchases of short-term investments of \$154 million in the second quarter of fiscal 2013.

Financing Activities:

Net cash provided by financing activities for the second quarter of fiscal 2014 was \$221 million compared with net cash used in financing activities of \$348 million for the second quarter of fiscal 2013. The change was primarily due to receipt of the proceeds of \$498 million from our August 2013 debt offering and a decrease in common shares repurchased of \$107 million.

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First Half Comparison Fiscal 2014 Versus Fiscal 2013

Operating Activities:

Net cash provided by operating activities for the first half of fiscal 2014 was \$98 million, representing a decrease of \$174 million compared with the first half of fiscal 2013. Net cash provided by operating activities was unfavorably affected by an increase in income tax payments of \$105 million, which includes an income tax refund received in the second quarter of fiscal 2014. In addition, there was an unfavorable effect from the payments associated with the Fiscal 2014 Plan of \$62 million and the decrease in the amount capitalized for internally developed software costs of approximately \$40 million. These unfavorable effects were partially offset by an increase in our cash collections. For the first quarter of fiscal 2013, other disbursements, net included the \$35 million in cash proceeds received as other income from the aforementioned intellectual property transaction.

Product development and enhancements expenses are expected to increase in future periods as the amount capitalized for internally developed software costs decreases (see “Amortization of Capitalized Software Costs” above). This resulted in additional operating cash outflows for the first half of fiscal 2014 and we expect that this will continue to have an unfavorable effect on operating cash flows for the remainder of fiscal 2014. In addition, we currently expect the payments associated with the Fiscal 2014 Plan of over \$100 million and an increase in cash taxes to have unfavorable effects on cash flows from operations for fiscal 2014. As a result, we expect a year-over-year decrease in cash flows from operations for fiscal 2014 compared with fiscal 2013.

Investing Activities:

Net cash used in investing activities for the first half of fiscal 2014 was \$20 million compared with \$274 million for the first half of fiscal 2013. The decrease was primarily due to the cash received from short-term investment maturities of \$184 million in the first half of fiscal 2014 compared with the purchases of short-term investments of \$154 million in the first half of fiscal 2013. In addition, there was a decrease in capitalized software development costs of \$43 million in the first half of fiscal 2014. The decreases in net cash used in investing activities were partially offset by an increase in cash paid for acquisitions of \$113 million in the first half of fiscal 2014.

Financing Activities:

Net cash provided by financing activities for the first half of fiscal 2014 was \$83 million compared with net cash used in financing activities of \$531 million for the first half of fiscal 2013. The change was primarily due to the receipt of proceeds of \$498 million from our August 2013 debt offering and a decrease in common shares repurchased of \$144 million.

Debt Obligations

As of September 30, 2013 and March 31, 2013, our debt obligations consisted of the following:

	September 30, 2013	March 31, 2013
	(in millions)	
Revolving credit facility due June 2018	\$—	\$—
5.375% Notes due November 2019	750	750
6.125% Notes due December 2014, net of unamortized premium from fair value hedge of \$14 and \$19	514	519
2.875% Notes due August 2018	250	—
4.500% Notes due August 2023	250	—
Other indebtedness, primarily capital leases	21	26
Unamortized discount for Notes	(6	) (5
Total debt outstanding	\$1,779	\$1,290
Less the current portion	(11	) (16
Total long-term debt portion	\$1,768	\$1,274

In August 2013, we issued \$250 million of 2.875% Senior Notes due August 2018 (2.875% Notes) and \$250 million of 4.500% Senior Notes due August 2023 (4.500% Notes), for an aggregate principal amount of \$500 million. The 2.875% Notes and 4.500% Notes are senior unsecured obligations that rank equally in right of payment with all of our

existing and future unsecured and unsubordinated obligations and are redeemable by us at any time, subject to a “make-whole” premium of 25 basis points and 30 basis points for the 2.875% Notes and 4.500% Notes, respectively. Interest on the 2.875% Notes and 4.500% Notes is payable semiannually in August and February, beginning February 2014. The 2.875% Notes and 4.500% Notes contain customary covenants and events of default. The maturity of the 2.875% Notes and the 4.500% Notes may be accelerated by holders upon certain events of default, including failure to make payments when due and failure to comply with covenants.

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Other Indebtedness

In June 2013, we amended our revolving credit facility to extend the due date from August 2016 to June 2018. At September 30, 2013 and March 31, 2013, there were no outstanding borrowings under the revolving credit facility. We have available an unsecured and uncommitted multi-currency line of credit to meet short-term working capital needs for our subsidiaries operating outside the United States. We use guarantees and letters of credit issued by financial institutions to guarantee performance on certain contracts. At September 30, 2013 and March 31, 2013, \$43 million and \$53 million, respectively, of this line of credit were pledged in support of bank guarantees and other local credit lines, and none of these arrangements had been drawn down by third parties.

We use a notional pooling arrangement with an international bank to help manage global liquidity requirements. Under this pooling arrangement, we and our participating subsidiaries may maintain either cash deposit or borrowing positions through local currency accounts with the bank, so long as the aggregate position of the global pool is a notionally calculated net cash deposit. Because it maintains a security interest in the cash deposits and has the right to offset the cash deposits against the borrowings, the bank provides us and our participating subsidiaries favorable interest terms on both. The activity under this cash pooling arrangement for the six months ended September 30, 2013 and 2012 was as follows:

	Six Months Ended September 30,	
	2013	2012
	(in millions)	
Total borrowing position outstanding at beginning of period ⁽¹⁾	\$136	\$139
Borrowings	1,609	513
Repayments	(1,639	) (481
Foreign currency exchange effect	20	(7
Total borrowing position outstanding at end of period ⁽¹⁾	\$126	\$164

(1)Included in “Accrued expenses and other current liabilities” in our Condensed Consolidated Balance Sheets.

For additional information concerning our debt obligations, refer to our Consolidated Financial Statements and Notes thereto included in our 2013 Form 10-K.

Effect of Exchange Rate Changes

There was a \$36 million favorable impact to our cash balances in the first half of fiscal 2014 predominantly due to the weakening of the U.S. dollar against the euro (6%) and the British pound sterling (7%), offset by the strengthening of the U.S. dollar against the Australian dollar (11%) and the Brazilian real (9%).

There was a \$60 million unfavorable impact to our cash balances in the first half of fiscal 2013 predominantly due to the strengthening of the U.S. dollar against the euro (4%), the Brazilian real (10%) and the Israeli shekel (5%), offset by the strengthening of the Japanese yen (6%) against the U.S. dollar.

CRITICAL ACCOUNTING POLICIES AND BUSINESS PRACTICES

The preparation of financial statements in accordance with generally accepted accounting principles requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. We base our estimates on historical experience and various other assumptions that we believe are reasonable under the circumstances. Our estimates form the basis for making judgments about amounts and timing of revenue and expenses, the carrying values of assets and the recorded amounts of liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and the estimates may change if the underlying conditions or assumptions change. Information with respect to our critical accounting policies that we believe could have the most significant effect on our reported results or require subjective or complex judgments by management is contained in our 2013 Form 10-K under Management’s Discussion and Analysis of Financial Condition and Results of Operations. At September 30, 2013, there was no material change to this information.

Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of risks, including foreign currency exchange rate fluctuations, interest rate changes and changes in the market value of our investments. In the normal course of business, we employ established policies and procedures to manage these risks including the use of derivative instruments. There have been no material changes in our financial risk management strategy or our portfolio management strategy, which is described in our 2013 Form 10-K, subsequent to March 31, 2013.

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Item 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that these disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting, as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Refer to Note J, "Commitments and Contingencies," in the Notes to the Condensed Consolidated Financial Statements for information regarding certain legal proceedings, the contents of which are herein incorporated by reference.

Item 1A. RISK FACTORS

Current and potential stockholders should consider carefully the risk factors described in more detail in our 2013 Form 10-K. We believe that as of September 30, 2013, there has been no material change to this information. Any of these factors, or others, many of which are beyond our control, could materially adversely affect our business, financial condition, operating results, cash flow and stock price.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth, for the months indicated, our purchases of common stock in the second quarter of fiscal 2014:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
	(in thousands, except average price paid per share)			
July 1, 2013 - July 31, 2013	—	\$—	—	\$452,271
August 1, 2013 - August 31, 2013	4,807	\$30.16	4,807	\$307,271
September 1, 2013 - September 30, 2013	—	\$—	—	\$307,271
Total	4,807		4,807	

On January 23, 2012, our Board of Directors approved a capital allocation program that authorized us to acquire up to \$1.5 billion of our common stock.

During the first half of fiscal 2014, we repurchased 7 million shares of our common stock for \$198 million. At September 30, 2013, we remained authorized to purchase \$307 million of our common stock under the capital allocation program. The Company expects to complete the authorized share repurchase program by the end of our fiscal year ending March 31, 2014.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

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Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

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Item 6. EXHIBITS

Regulation S-K

Exhibit Number

3.1	Amended and Restated Certificate of Incorporation.	Filed as Exhibit 3.3 to the Company's Current Report on Form 8-K dated March 6, 2006.*
3.2	By-Laws of the Company, as amended.	Filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated February 23, 2007.*
4.1	Stockholder Protection Rights Agreement dated November 8, 2012 between the Company and Computershare Shareowner Services LLC, as Rights Agent, including as Exhibit A the forms of Rights Certificate and of Election to Exercise and as Exhibit B the form of Certificate of Designation and Terms of the Participating Preferred Stock of the Company.	Filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated November 8, 2012.*
4.2	Officers' Certificate dated August 16, 2013 establishing the terms of the 2.875% Senior Notes due 2018 and the 4.500% Senior Notes due 2023 (including the forms of the Senior Notes) pursuant to the Company's Indenture dated as of June 1, 2008 with U.S. Bank National Association, as trustee.	Filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated August 16, 2013.*
10.1**	Schedules A, B, and C (as amended) to CA, Inc. Change in Control Severance Policy.	Filed herewith.
10.2**	Form of Sign-On Award Agreement for Lauren P. Flaherty under the CA, Inc. 2011 Incentive Plan - Restricted Stock Units.	Filed herewith.
10.3**	Form of Sign-On Award Agreement for Lauren P. Flaherty under the CA, Inc. 2011 Incentive Plan - Nonqualified Stock Options.	Filed herewith.
12.1	Statement of Ratio of Earnings to Fixed Charges.	Filed herewith.
15	Accountants' acknowledgment letter.	Filed herewith.
31.1	Certification of the Principal Executive Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of the Principal Financial Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32	Certification pursuant to §906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
101	The following financial statements from CA, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013	Filed herewith.

formatted in XBRL (eXtensible Business Reporting Language):

(i) Condensed Consolidated Balance Sheets — September 30, 2013 (Unaudited) and March 31, 2013.

(ii) Unaudited Condensed Consolidated Statements of Operations — Three and Six Months Ended September 30, 2013 and 2012.

(iii) Unaudited Condensed Consolidated Statements of Comprehensive Income — Three and Six Months Ended September 30, 2013 and 2012.

(iv) Unaudited Condensed Consolidated Statements of Cash Flows — Six Months Ended September 30, 2013 and 2012.

(v) Notes to Condensed Consolidated Financial Statements — September 30, 2013.

* Incorporated herein by reference.

** Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CA, INC.

By: /s/ Michael P. Gregoire
Michael P. Gregoire
Chief Executive Officer

By: /s/ Richard J. Beckert
Richard J. Beckert
Executive Vice President and Chief Financial Officer

Dated: October 25, 2013

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