COMPUTER ASSOCIATES INTERNATIONAL INC
Form 10-Q/A
June 14, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549
FORM 10-Q/A

þ Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended **December 31, 2003**
or
o Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the transition period ended from __________ to __________

Commission File Number 1-9247

Computer Associates International, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-2857434**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
One Computer Associates Plaza Islandia, New York	**11749**
(Address of principal executive offices)	(Zip Code)

(631) 342-6000
(Registrant s telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes þ No o.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act): Yes þ No o.

EXPLANATORY NOTE

This Form 10-Q/A is being filed for the purpose of amending Items 1 and 2 of Part I and Item 6 of Part II of Form 10-Q to reflect adjustments to revenue for the three and nine-month periods ended December 31, 2003. Refer to footnote A for further details regarding the restatement and certain other balance sheet reclassifications as of the periods ending December 31, 2003 and March 31, 2003. As a result of the completion of the internal investigation in April 2004 by the Audit Committee of the Board of Directors into accounting practices that were in place prior to the Company s adoption of its Business Model in October 2000, our independent registered public accounting firm was able to complete their review under Statement of Auditing Standards No. 100, Interim Financial Information (SAS 100) of the unaudited Consolidated Condensed Financial Statements for the quarterly periods ended September 30, 2003 and December 31, 2003. Based on the completion of their review, our independent registered public accounting firm issued their SAS 100 review report, which is included herein.

All information in this Form 10-Q/A is as of December 31, 2003 and does not reflect any subsequent information or events other than the restatement of revenue and balance sheet reclassifications. Refer to the Company s Form 10-K for the fiscal year ended March 31, 2004, filed contemporaneously with this Form 10-Q/A, and our other filings with the Securities and Exchange Commission, for an update on the government investigation and other matters.

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Except as described above, all other Items of the original filing made on January 21, 2004 are unaffected by the changes described above and have not been repeated in this Amendment.

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Title of Class	Shares Outstanding
Common Stock	as of January 19, 2004
par value $.10 per share	581,969,557

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COMPUTER ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Computer Associates International, Inc.

We have reviewed the accompanying consolidated condensed balance sheet of Computer Associates International, Inc. and subsidiaries as of December 31, 2003, and the related consolidated condensed statements of operations for the three and nine month periods ended December 31, 2003 and 2002, and the related consolidated condensed statement of cash flows for the nine month periods ended December 31, 2003 and 2002. These consolidated condensed financial statements are the responsibility of the Company s management.

We conducted our review in accordance with standards established by the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data 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 consolidated condensed financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards established by the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Computer Associates International, Inc. and subsidiaries as of March 31, 2003, and the related consolidated statements of operations, stockholders equity, and cash flows for the year then ended (not presented herein); and in our report dated May 9, 2003, we expressed an unqualified opinion on those consolidated financial statements. As discussed in that report, effective April 1, 2002, the Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. In our opinion, the information set forth in the accompanying consolidated condensed balance sheet as of March 31, 2003, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note A to the consolidated condensed financial statements, effective April 1, 2003, the Company adopted the fair value method of accounting provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation,* as amended by SFAS No. 148, *Accounting for Stock-Based Compensation- Transition and Disclosure- an amendment of SFAS 123.*

As discussed in Note A to the consolidated condensed financial statements, the Company has restated the consolidated condensed balance sheet at December 31, 2003, and the related consolidated condensed statements of operations and cash flows for the periods then ended.

/s/ KPMG LLP

New York, New York
June 7, 2004

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Item 1:

COMPUTER ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

(unaudited)
(in millions)

	December 31, 2003	March 31, 2003
	(restated)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,248	$ 1,405
Marketable securities	104	91
Trade and installment accounts receivable, net	1,101	1,079
Deferred income taxes	279	287
Other current assets	65	117
Assets of discontinued operation	59	66
TOTAL CURRENT ASSETS	2,856	3,045
Installment accounts receivable, due after one year, net	979	1,299
Property and equipment, net	644	662
Purchased software products, net	1,133	1,416
Goodwill, net	4,402	4,400
Other noncurrent assets, net	402	439
TOTAL ASSETS	$ 10,416	$ 11,261
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Loans payable and current portion of long-term debt	$ 1	$ 828
Deferred subscription revenue (collected) current	974	923
Other current liabilities	1,331	1,213
Liabilities of discontinued operation	59	65
TOTAL CURRENT LIABILITIES	2,365	3,029
Long-term debt, net of current portion	2,299	2,298
Deferred income taxes	804	1,047
Deferred subscription revenue (collected) noncurrent	253	173
Deferred maintenance revenue	259	324
Other noncurrent liabilities	31	27

TOTAL LIABILITIES	6,011	6,898
Stockholders equity	4,405	4,363
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 10,416	$ 11,261

See Notes to the Consolidated Condensed Financial Statements.

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COMPUTER ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(unaudited)
(in millions, except per share amounts)

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2003	**2002**	**2003**	**2002**
	(restated)		**(restated)**	
REVENUE				
Subscription revenue	$506	$362	$1,426	$1,019
Software fees and other	84	88	226	259
Maintenance	145	176	455	558
Financing fees	43	66	146	229
Professional services	59	62	173	187
TOTAL REVENUE	837	754	2,426	2,252
EXPENSES				
Amortization of capitalized software costs	116	115	349	350
Cost of professional services	54	60	161	178
Selling, general and administrative	306	329	944	1,002
Product development and enhancements	167	161	494	481
Commissions and royalties	75	62	182	179
Depreciation and amortization of other intangibles	33	35	100	103
Other gains/expenses, net	22	21	46	80
Shareholder litigation settlement	8		158	
TOTAL EXPENSES BEFORE INTEREST AND TAXES	781	783	2,434	2,373
Income (loss) from continuing operations before interest and taxes	56	(29)	(8)	(121)
Interest expense, net	29	44	89	130
Income (loss) from continuing operations before income taxes	27	(73)	(97)	(251)
Income taxes (benefit)	10	(26)	(32)	(87)
INCOME (LOSS) FROM CONTINUING OPERATIONS	17	(47)	(65)	(164)
Income from discontinued operation, net of income taxes	1	3	1	3
NET INCOME (LOSS)	$ 18	$ (44)	$ (64)	$ (161)

BASIC EARNINGS (LOSS) PER SHARE				
Income (loss) from continuing operations	$ .03	$(.08)	$ (.11)	$ (.29)
Income from discontinued operation	.00	.00	.00	.01
Net income (loss)	$ .03	$(.08)	$ (.11)	$ (.28)
Basic weighted-average shares used in computation	580	574	579	575
DILUTED EARNINGS (LOSS) PER SHARE				
Income (loss) from continuing operations	$ .03	$(.08)	$ (.11)	$ (.29)
Income from discontinued operation	.00	.00	.00	.01
Net income (loss)	$ .03	$(.08)	$ (.11)	$ (.28)
Diluted weighted-average shares used in computation	589	574	579	575

See Notes to the Consolidated Condensed Financial Statements.

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COMPUTER ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)
(in millions)

	For the Nine Months Ended December 31,	
	2003	**2002**
	(restated)	
OPERATING ACTIVITIES:		
Net loss	$ (64)	$ (161)
Income from discontinued operation, net of tax	(1)	(3)
Loss from continuing operations	(65)	(164)
Adjustments to reconcile loss from continuing operations to net cash provided by continuing operating activities:		
Depreciation and amortization	449	453
Provision for deferred income taxes	(245)	(181)
Compensation expense related to stock and pension plans	27	27
Decrease in noncurrent installment accounts receivable, net	307	353
Increase (decrease) in deferred subscription revenue (collected) noncurrent	68	(36)
Decrease in deferred maintenance revenue	(79)	(149)
Decrease in trade and current installment accounts receivable, net	95	438
(Decrease) increase in deferred subscription revenue (collected) current	(14)	46
(Gain) loss on sale of assets, net	(18)	2
Gain on early retirement of debt		(3)
Changes in other operating assets and liabilities, excluding effects of acquisitions and divestitures	167	(50)
NET CASH PROVIDED BY CONTINUING OPERATING ACTIVITIES	692	736
INVESTING ACTIVITIES:		
Acquisitions of purchased software	(36)	(12)
Settlements of purchase accounting liabilities	(15)	(44)
Purchases of property and equipment, net	(19)	(15)
Proceeds from divestiture of assets	18	20
Purchases of marketable securities, net	(12)	(14)
Increase in capitalized software development costs and other	(31)	(31)
NET CASH USED IN CONTINUING INVESTING ACTIVITIES	(95)	(96)
FINANCING ACTIVITIES:		
Debt repayments, net	(826)	(720)
Dividends paid	(23)	(23)

Exercises of common stock options and other	26	22
Purchase of a call spread option		(73)
Purchases of treasury stock	(7)	(68)
NET CASH USED IN CONTINUING FINANCING ACTIVITIES	(830)	(862)
Effect of exchange rate changes on cash	76	46
DECREASE IN CASH AND CASH EQUIVALENTS	(157)	(176)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,405	1,072
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,248	$ 896

See Notes to the Consolidated Condensed Financial Statements.

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COMPUTER ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE A   BASIS OF PRESENTATION

The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. 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 financial statements included in this Form 10-Q/A have been adjusted to reflect the disposition of the Company's subsidiary, ACCPAC International, Inc. (ACCPAC), as discontinued operations for all periods presented.

Operating results for the three and nine months ended December 31, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2004. For further information, refer to the Consolidated Financial Statements and Notes thereto included in the Annual Report on Form 10-K (Form 10-K) relating to the Company for the fiscal year ended March 31, 2003.

Basis of Revenue Recognition: The Company derives revenue from licensing software products, providing customer technical support and providing professional services. The Company licenses to customers the right to use its software products pursuant to software license agreements. Since the Company recognizes subscription revenue from software license agreements evenly (or ratably) over the applicable license agreement term, the timing and amount of such revenue recognized during a particular accounting period is determined by the license agreement duration and value reflected in each software license agreement. Revenue from transactions completed through the Company s distributor, reseller and original equipment manufacturer partners is generally recognized when those partners sell the software products to their customers. This is commonly referred to as the sell-through method. Revenue from these transactions is included in Software fees and other on the Consolidated Condensed Statements of Operations. For a more detailed description of the Company s revenue recognition policy, refer to Note 1 to the Consolidated Financial Statements in the Company s Form 10-K for the fiscal year ended March 31, 2003.

Business Model: In October 2000, the Company announced the shift to its Business Model that offers customers significant flexibility to change how they can use and license the Company s software products as their businesses change. Under the Business Model, customers can manage their costs more effectively by controlling the duration of their software license agreements. The Business Model also permits customers to change their software mix as their business and technology needs change. The Company believes its Business Model improves the predictability of its revenue streams, since the Company recognizes subscription revenue ratably over the life of each software license agreement. Under the Company s prior business model, and as is common practice in the software industry, license fees from a software license agreement were generally recorded up-front at the time the license agreement was signed and the software was delivered. For a detailed description of the Company s Business Model, refer to Item 1. Business in the Company s Form 10-K for the fiscal year ended March 31, 2003.

Statements of Cash Flows: Cash flows related to the discontinued operating activities of the Company s subsidiary, ACCPAC International, Inc. (ACCPAC) have been segregated on the Consolidated Condensed Statements of Cash Flows. For the nine months ended December 31, 2003 and 2002, interest payments were $119 million and $166 million, respectively, and income taxes paid were $222 million and $114 million, respectively.

Cash Dividends: In October 2003, the Company s Board of Directors declared its regular, semi-annual cash dividend of $.04 per share. The dividend totaled approximately $23 million and was paid on January 7, 2004 to stockholders of record on December 22, 2003.

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COMPUTER ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
DECEMBER 31, 2003

Restatement of Revenue: This Form 10-Q/A reflects adjustments to revenue associated with a correction in the method of accounting for subscription revenue associated with Business Model contracts that replaced existing Business Model contracts and other miscellaneous minor adjustments. Previously, the remaining deferred subscription revenue balance associated with the contract that was being replaced was amortized over the term of the original contract. In accordance with SOP 97-2, Software Revenue Recognition , the correct, and revised, method amortizes the remaining deferred subscription revenue balance over the term of the new contract. The adjustments decreased revenue by $7 million and $15 million and decreased income taxes by $3 million and $6 million for the three and nine month periods ended December 31, 2003, respectively. These adjustments also increased deferred subscription revenue by approximately $14 million at December 31, 2003. The impact of these adjustments is as follows:

	For the Three Months Ended December 31, 2003		For the Nine Months Ended December 31, 2003	
	Previously Reported	Restated	Previously Reported	Restated
	(in millions, except per share amounts)			
Revenue	$ 844	$ 837	$ 2,441	$ 2,426
Income (loss) from continuing operations	21	17	(56)	(65)
Basic earnings (loss) from continuing operations per share	0.04	0.03	(0.10)	(0.11)
Diluted earnings (loss) from continuing operations per share	0.04	0.03	(0.10)	(0.11)

NOTE B COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes unrealized gains (losses) on the Company s available-for-sale securities, net of related tax, and foreign currency translation adjustments. The components of comprehensive income (loss) for the three and nine month periods ended December 31, 2003 and 2002 are as follows:

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2003	2002	2003	2002
	(restated)		(restated)	
	(in millions)			
Net income (loss)	$ 18	$ (44)	$ (64)	$ (161)

Unrealized gains (losses) on marketable securities, net of tax		(1)	1	(4)
Foreign currency translation adjustment	55	46	102	138
Total comprehensive income (loss)	$ 73	$ 1	$ 39	$ (27)

NOTE C EARNINGS (LOSS) FROM CONTINUING OPERATIONS PER SHARE

Basic earnings (loss) from continuing operations per share and diluted loss per share are computed by dividing income (loss) from continuing operations by the weighted-average number of common shares outstanding for the period. Diluted earnings from continuing operations per share is computed by dividing (i) the sum of income from continuing operations and the after-tax amount of interest expense recognized in the period associated with Convertible Senior Notes that are dilutive by (ii) the sum of the weighted-average number of common shares outstanding for the period plus dilutive common share equivalents.

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COMPUTER ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2003	2002	2003	2002
	(restated)		(restated)	
	(in millions, except per share amounts)			
Income (loss) from continuing operations	$ 17	$ (47)	$ (65)	$(164)
Interest expense associated with the Convertible Senior Notes, net of tax	(1)	(2)	(2)	(2)
Numerator in calculation of diluted earnings (loss) per share	$ 17	$ (47)	$ (65)	$(164)
Weighted-average shares outstanding and common share equivalents				
Weighted-average common shares outstanding	580	574	579	575
Weighted-average Convertible Senior Note shares outstanding				
Weighted-average stock options outstanding, net	4			
Weighted-average shareholder settlement shares (see Note J)	5			
Denominator in calculation of diluted earnings (loss) per share	589	574	579	575
Diluted earnings (loss) per share from continuing operations	$ .03(3)	$ (.08)(4)	$ (.11)(5)	$ (.29)(4)

(1) If for the three month period ended December 31, 2003 the common share equivalents for the 5% Convertible Senior Notes (27 million shares) issued in March 2002 and the 1.625% Convertible Senior Notes (23 million shares) issued in December 2002 (collectively, the Notes) had been dilutive, interest expense, net of tax, related to the Notes would have been added back to income from continuing operations in order to calculate diluted earnings per share. The related interest expense, net of tax, for the three month period ended December 31,

2003 totaled approximately $6 million.

(2) If the three month period ended December 31, 2002 and the nine month periods ended December 31, 2003 and 2002 had resulted in income from continuing operations and had the common share equivalents for the Notes been dilutive, interest expense, net of tax, related to the Notes would have been added back to income from continuing operations in order to calculate diluted earnings per share. The related interest expense, net of tax, for the three month period ended December 31, 2002 totaled approximately $5 million and for the nine month periods ended December 31, 2003 and 2002 totaled $19 million and $16 million, respectively.

(3) Common share equivalents related to the Notes are not included in the diluted share computation since their effect would be antidilutive. If inclusion of the common share equivalents for the Notes for the three month period ended December 31, 2003 had resulted in dilution, the weighted-average shares outstanding and common share equivalents would have been 639 million.

(4) Common share equivalents related to the Notes and stock options are not included in the diluted share computation since their effect would be antidilutive. If the three and nine month periods ended December 31, 2002 had resulted in net income and had the common share equivalents for the Notes been dilutive, the weighted-average shares outstanding and common share equivalents would have been 608 million and 606 million, respectively.

(5) Common share equivalents related to the Notes, stock options and settlement shares are not included in the diluted share computation since their effect would be antidilutive. If the nine month period ended December 31, 2003 had resulted in net income and had the common share equivalents for the Notes been dilutive, the weighted-average shares outstanding and common share equivalents would have been 636 million.

NOTE D ACCOUNTING FOR STOCK-BASED COMPENSATION

Prior to April 1, 2003, the Company accounted for its stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25) and related interpretations.

Effective April 1, 2003, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. The Company selected the prospective method to transition to the fair value method of measuring stock-based compensation expense.

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COMPUTER ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
DECEMBER 31, 2003

Under the prospective method, the Company recognizes compensation expense related to all stock awards granted after March 31, 2003 in Selling, General and Administrative on the Consolidated Condensed Statements of Operations. The following table illustrates the pro forma effect on net income (loss) and basic and dilutive earnings (loss) per share as if the fair value method had been applied to all stock-based employee compensation in each period:

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2003	**2002**	**2003**	**2002**
	(restated)		**(restated)**	
	(in millions, except per share amounts)			
Net income (loss), as reported	$ 18	$ (44)	$ (64)	$(161)
Add:				
Stock-based employee compensation expense, net of tax, included in net income (loss) Deduct:	3		5	1
Stock-based employee compensation expense, net of tax, determined under the fair value based method for all awards	(17)	(25)	(63)	(73)
Pro forma net income (loss)	$ 4	$ (69)	$(122)	$(233)
Basic earnings (loss) per share				
As reported	$ .03	$(.08)	$ (.11)	$ (.28)
Pro forma	.01	(.12)	(.21)	(.41)
Diluted earnings (loss) per share				
As reported	$ .03	$(.08)	$ (.11)	$ (.28)
Pro forma	.01	(.12)	(.21)	(.41)

The compensation expense and pro forma net income (loss) are not necessarily indicative of amounts to be included in future periods.

No options were granted in the third quarter of fiscal year 2004. Options covering 151,125 shares were granted in the first nine months of fiscal year 2004 with a weighted-average estimated fair value of $12.32. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used in determining the fair value of options granted in the first nine months of fiscal year 2004: dividend yield of 0.35%; expected volatility factor of 67%; risk-free interest rate of 2.2%; and an expected life of 4.5 years, which is lower than the expected life used in prior year computations, due to a reduction in the average vesting period.

The Company maintains the Year 2000 Employee Stock Purchase Plan (the Purchase Plan) for all eligible employees.

The estimated fair value of the stock purchase rights under the Purchase Plan for the six month offering period commencing July 1, 2003 was $7.02. The fair value is estimated on the first date of the offering period using the Black-Scholes option pricing model. The following weighted-average assumptions were used in determining the estimated fair value of stock purchase rights under the Purchase Plan granted for the offering period commencing July 1, 2003: dividend yield of 0.36%; expected volatility factor of 60%; risk-free interest rate of 0.96%; and an expected life of 0.5 years.

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COMPUTER ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE E ACCOUNTS RECEIVABLE

Net trade and installment accounts receivable consist of the following:

	December 31, 2003	March 31, 2003
	(in millions)	
Current:		
Billed accounts receivable	$ 782	$ 809
Unbilled amounts due within the next 12 months Business Model	1,430	1,284
Unbilled amounts due within the next 12 months prior business model	909	1,020
Less: Allowance for doubtful accounts	(129)	(159)
Net amounts expected to be collected	2,992	2,954
Less: Unearned revenue current	(1,891)	(1,875)
Net trade and installment accounts receivable current	$ 1,101	$ 1,079
Noncurrent:		
Unbilled amounts due beyond the next 12 months Business Model	$ 1,167	$ 1,210
Unbilled amounts due beyond the next 12 months prior business model	1,319	1,807
Less: Allowance for doubtful accounts	(62)	(85)
Net amounts expected to be collected	2,424	2,932
Less: Unearned revenue noncurrent	(1,445)	(1,633)
Net installment accounts receivable noncurrent	$ 979	$ 1,299

The components of unearned revenue consist of the following:

	December 31, 2003	March 31, 2003
	(in millions)	
Current:		
Unamortized discounts	$ 130	$ 185
Unearned maintenance	123	189
Deferred subscription revenue (uncollected)	963	688
Noncurrent deferred subscription revenue (uncollected) associated with unbilled amounts due within the next 12 months	649	780
Unearned professional services	26	33
	$1,891	$ 1,875
Noncurrent:		
Unamortized discounts	$ 164	$ 250
Unearned maintenance	114	173
Deferred subscription revenue (uncollected)	1,167	1,210
	$1,445	$ 1,633

NOTE F IDENTIFIED INTANGIBLE ASSETS

In the table below, capitalized software includes both purchased and internally developed software costs; other identified intangible assets include both purchased customer relationships and trademarks/trade name costs. Internally developed capitalized software costs and other identified intangible asset costs are included in Other noncurrent assets on the Consolidated Condensed Balance Sheets. The gross carrying amounts and accumulated amortization for identified intangible assets subject to amortization are as follows:

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COMPUTER ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
DECEMBER 31, 2003

	At December 31, 2003		
	Gross Assets	Accumulated Amortization	Net Assets
		(in millions)	
Capitalized software:			
Purchased	$4,521	$ 3,388	$ 1,133
Internally developed	423	286	137
Other	370	165	205
Total	$5,314	$ 3,839	$ 1,475

	At March 31, 2003		
	Gross Assets	Accumulated Amortization	Net Assets
		(in millions)	
Capitalized software:			
Purchased	$4,481	$ 3,065	$ 1,416
Internally developed	392	257	135
Other	370	136	234
Total	$5,243	$ 3,458	$ 1,785

For the third quarters of fiscal years 2004 and 2003, amortization of capitalized software costs was $116 million and $115 million, respectively. Amortization of other identified intangible assets was $10 million for both quarters presented.

For the first nine months of fiscal years 2004 and 2003, amortization of capitalized software costs was $349 million and $350 million, respectively, and amortization of other identified intangible assets was $29 million for both periods presented.

Based on the identified intangible assets recorded through December 31, 2003, annual amortization expense is expected to be as follows:

	Year Ended March 31,					
	2004	2005	2006	2007	2008	2009
	(in millions)					
Capitalized software:						
Purchased	$423	$395	$370	$256	$ 7	$ 1
Internally developed	40	42	35	26	16	8
Other	39	39	39	23	23	23
Total	$502	$476	$444	$305	$46	$32

NOTE G RECLASSIFICATIONS

Gains and losses attributable to sales of fixed assets, certain foreign currency exchange rate fluctuations, and certain other infrequent events have been reclassified from Selling, general & administrative to Other gains/expenses, net on the Consolidated Condensed Statements of Operations. The components of Other gains/expenses are as follows:

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**COMPUTER ASSOCIATES INTERNATIONAL, INC. AND SUBSIDIARIES
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	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2003	2002	2003	2002
	(in millions)			
(Gain)/loss attributable to sales of fixed assets	$	$	$ (18)	$ 2
Expenses attributable to fluctuations in foreign currency exchange rates	21	19	35	64
Expenses attributable to legal settlements	1	2	29	4
Payment to Ranger Governance Ltd.				10
	$ 22	$ 21	$ 46	$ 80

The assets, liabilities, results of operations and cash flows of ACCPAC have been classified as a discontinued operation for all periods presented on the Company s Consolidated Condensed Financial Statements. See Note H for additional information.

Approximately $72 million of deferred tax assets at March 31, 2003 has been reclassified from Other noncurrent assets to Deferred income taxes on the Consolidated Condensed Balance Sheet to conform to the December 31, 2003 presentation.

Approximately $18 million of a noncurrent reserve at March 31, 2003 has been reclassified from Other noncurrent assets to Other current liabilities on the Consolidated Condensed Balance Sheets to conform to the December 31, 2003 presentation.

Approximately $14 million of deferred revenue at March 31, 2003 related to the Company s indirect business (distributors, resellers, and VARs) has been reclassified from Allowance for doubtful accounts to Billed accounts receivable within Note E to conform to the December 31, 2003 presentation. As a result of this reclassification, the Company reclassified $5 million of deferred income taxes at March 31, 2003, from deferred income taxes current, to deferred income taxes noncurrent, on the Consolidated Condensed Balance Sheets.

Approximately $649 million and $780 million of noncurrent deferred subscription revenue (uncollected) associated with unbilled amounts due from customers within the next 12 months at December 31, 2003 and March 31, 2003, respectively, have been reclassified from unearned revenue noncurrent (a component of net installment accounts receivable noncurrent) to unearned revenue current (a component of net trade and installment accounts receivable current) on the Consolidated Condensed Balance Sheets and within Note E. As a result of this reclassification, the Company reclassified $243 million and $291 million of a deferred tax liability at December 31, 2003 and March 31, 2003, respectively, from deferred income taxes current to deferred income taxes noncurrent on the Consolidated

Condensed Balance Sheets.

Upon adoption of SFAS No. 142, assembled workforce no longer met the definition of an identifiable intangible asset. As a result, the deferred tax liability of $35 million at both December 31, 2003 and March 31, 2003 associated with the assembled workforce asset was eliminated through a reduction in the carrying amount of goodwill.

Approximately $23 million and $16 million of certain unclaimed funds at December 31, 2003 and March 31, 2003, respectively, have been reclassified from Allowance for doubtful accounts (a component of net trade and installment accounts receivable current) to Other current liabilities on the Consolidated Condensed Balance Sheets. As a result of this reclassification, the Company reclassified $9 million and $6 million of deferred income taxes at December 31, 2003 and March 31, 2003, respectively, from deferred income taxes current, to deferred income taxes noncurrent, on the Consolidated Condensed Balance Sheets.

Approximately $10 million of deferred tax assets at December 31, 2003 and March 31, 2003 has been reclassified from Other current liabilities to Deferred income taxes on the Consolidated Condensed Balance Sheets.

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Approximately $10 million and $8 million of certain international pension liabilities at December 31, 2003 and March 31, 2003, respectively, have been reclassified from Other current liabilities to Other noncurrent liabilities on the Consolidated Condensed Balance Sheets.

NOTE H DIVESTITURES

In December 2003, the Company entered into a definitive agreement to sell its 90 percent ownership of ACCPAC to The Sage Group, plc. (Sage) based on a $110 million aggregate cash price for all the outstanding equity interests of ACCPAC including options and change of control payments for certain ACCPAC officers and managers. ACCPAC specializes in accounting, customer relationship management, human resources, warehouse management, manufacturing, electronic data interchange, and point-of-sale software for small and medium-sized businesses. The sale of ACCPAC is subject to regulatory approvals and is expected to close during the fourth quarter of fiscal year 2004. Pursuant to SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the assets and liabilities of ACCPAC are recorded at their carrying values and have been classified as a discontinued operation held for sale on the Consolidated Condensed Balance Sheets. Accordingly, the Company has stopped depreciating the assets of ACCPAC effective December 2003. Approximately 600 employees will be transferred to Sage as part of the transaction. The sale will complete the Company s multi-year effort to exit the business applications market.

The operating results of the ACCPAC discontinued operation are summarized as follows:

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2003	**2002**	**2003**	**2002**
	(in millions)			
Software fees and other	$ 14	$ 13	$ 38	$ 32
Maintenance	15	11	40	31
Total revenue	$ 29	$ 24	$ 78	$ 63
Pre-tax income from discontinued operation	$ 1	$ 4	$ 1	$ 3
Net income from discontinued operation	$ 1	$ 3	$ 1	$ 3

In October 2002, the Company completed the divestiture of its banking products group to a third party. Proceeds from the divestiture totaled approximately $8 million, which was received in the quarter ended December 31, 2002. The banking products group generated approximately $12 million of revenue and $7 million of direct expenses for the first nine months of fiscal year 2003. As part of the transaction, net billed and unbilled accounts receivable and net deferred subscription revenue were reduced by approximately $12 million and $18 million, respectively. Approximately 80 employees were transferred to the acquirer as part of this transaction.

NOTE I ACQUISITIONS

The Company acquired PLATINUM *technology* International, *inc.* and Sterling Software, Inc. in May 1999 and March 2000, respectively. The Company also acquired several smaller businesses prior to fiscal year 2000. The Company has not completed any acquisitions since March 2000 that generated additional acquisition-related liabilities. Accrued acquisition-related costs and changes in these accruals were as follows:

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	Duplicate Facilities & Other Costs	Employee Costs
	(in millions)	
Balance at March 31, 2002	$135	$ 34
Settlements	(43)	(10)
Adjustments	(18)	(1)
Balance at March 31, 2003	$ 74	$ 23
Settlements	(8)	(7)
Balance at December 31, 2003	$ 66	$ 16

The duplicate facilities and other costs relate to operating leases which expire at various times through 2010, negotiated buyouts of operating lease commitments, taxes, and other contractual liabilities. The employee costs consist of involuntary termination benefits. The adjustments, which reduced the corresponding liability and related goodwill asset accounts, were recorded when obligations were settled at amounts less than originally estimated. The remaining liability balances are included in Other current liabilities on the Consolidated Condensed Balance Sheets.

NOTE J SHAREHOLDER LITIGATION SETTLEMENT

In August 2003, the Company announced plans to settle all outstanding litigation related to past accounting issues. Included in the settlement are both shareholder and ERISA (Employee Retirement Income Security Act of 1974, as amended) class-action suits and related derivative litigation. As part of the settlement, the Company will issue to the shareholder classes a total of up to 5.7 million shares (settlement shares) of the Company s common stock. If the Company s share price is below $23.43 at the time of distribution of the settlement shares, up to 2.2 million of the 5.7 million shares would be payable in cash at that price or a maximum of $51.546 million in cash. In that case, the stock portion of the settlement would be reduced to no less than 3.5 million shares. An initial estimate for the value of the shareholder litigation settlement was established on August 22, 2003 and until all settlement shares are issued, the projected impact will be reviewed quarterly and the expense adjusted accordingly, as noted below. The related liability is reflected in Other current liabilities on the Consolidated Condensed Balance Sheets. The chart below summarizes the New York Stock Exchange (NYSE) closing price of the Company s common stock and the estimated value of the shareholder litigation settlement since the initial estimate was established.

Shareholder

	NYSE Closing Stock Price	Litigation Settlement Estimated Value
		(in millions)
August 22, 2003	$25.00	$ 144
September 30, 2003	$26.11	$ 150
December 31, 2003	$27.34	$ 158

In December 2003, the United States District Court for the Eastern District of New York approved the settlement, which is subject to appeal. In January 2004, approximately 1.6 million settlement shares were issued along with approximately $3.3 million to the plaintiffs attorneys for attorney fees and related expenses. The balance of the shares will be issued after all claims submitted pursuant to the settlement plans have been received. Refer to Part II, Item 1. Legal Proceedings of the Form 10-Q filed with the Securities and Exchange Commission on January 21, 2004 (the Original Filing) for additional information.

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NOTE K RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. Issue 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of Issue 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003 but do not supersede existing authoritative guidance, including SOP 97-2. The adoption of Issue 00-21 did not have an impact on the Company s financial statements.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. Interpretation No. 46 clarifies the application of Accounting Research Bulletin No. 51. This Interpretation requires variable interest entities to be consolidated if the equity investment at risk is not sufficient to permit an entity to finance its activities without support from other parties or the equity investors lack specified characteristics. The adoption of this Interpretation did not have an impact on the Company s financial statements.

In April 2003, the FASB issued SFAS No. 149, Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In particular, this Statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative. It also clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and did not have an impact on the Company s financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify certain financial instruments as a liability (or as an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have an impact on the Company s financial statements.

NOTE L SUBSEQUENT EVENT

On January 8, 2004, the Company received a Wells Notice from the staff of the SEC. The Wells Notice notifies the Company that the staff is considering recommending that the SEC bring a civil enforcement proceeding against the Company for possible violations of the federal securities laws arising from the Company s premature recognition of revenue from software license agreements in the fiscal year ended March 31, 2000. Refer to Part II, Item 1. Legal Proceedings of the Original Filing for additional information.

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Item 2:

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-Q/A contains certain forward-looking statements and information relating to the Company that are based on the beliefs and assumptions made by management as well as information currently available to management. When used in this document, the words anticipate, believe, estimate, expect, and similar expressions, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties, and assumptions, some of which are described below in the section Risk Factors. Should one or more of these risks or uncertainties occur, or should our assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, or expected. We do not intend to update these forward-looking statements except as may be required by law.

QUARTERLY UPDATE

In December 2003, we announced that we entered into a definitive agreement to sell our 90 percent ownership of our ACCPAC International, Inc. subsidiary (ACCPAC) to The Sage Group, plc. based on a $110 million aggregate cash price for all the outstanding equity interests of ACCPAC, including options and change of control payments for certain ACCPAC officers and managers. The sale is subject to regulatory approvals and is expected to close during the fourth quarter of fiscal year 2004. After transaction and other costs, we expect to record a pre-tax gain of approximately $88 million. The sale will complete our multi-year effort to exit the business applications market. Accounting rules require that we treat ACCPAC as a discontinued operation, effective December 2003. As such, we have segregated the assets, liabilities, results of operations and cash flows of this subsidiary and reclassified the related balances to discontinued operation for all periods presented in this Form 10-Q/A. Refer to Note H Divestitures of this Form 10-Q/A for additional information.

In December 2003, we announced that the United States District Court for the Eastern District of New York approved the plan to settle all outstanding litigation related to past accounting issues. Included in the settlement are both shareholder and ERISA class-action suits and related derivative litigation. As part of the settlement, we will issue to the shareholder classes a total of up to 5.7 million shares (settlement shares) of our common stock. An additional expense related to the settlement of approximately $8 million was recorded in the quarter ended December 31, 2003. Refer to Note J Shareholder Litigation Settlement and Part II, Item 1. Legal Proceedings of the Original Filing for additional information.

As previously reported, we are continuing to respond to the investigations being conducted by the Securities and Exchange Commission (SEC) and the U.S. Attorney s Office for the Eastern District of New York. On January 8, 2004, we received a Wells Notice from the staff of the SEC indicating that the staff is considering recommending that the SEC bring a civil enforcement proceeding against us. At this time, we cannot predict the scope or outcome of these inquiries. Refer to Part II, Item 1. Legal Proceedings of the Original Filing for additional information.

On October 8, 2003, we reported that the ongoing investigation of the Audit Committee had preliminarily found that revenues were prematurely recognized in the fiscal year ended March 31, 2000, and that a number of software license agreements appear to have been signed after the end of the quarter in which revenues associated with such software license agreements had been recognized in that fiscal year. Those revenues, as the Audit Committee found, should have been recognized in the quarter in which the software license agreements were signed. Those preliminary findings were reported to government investigators. Since October 8, 2003, the Audit Committee has made substantial progress and is nearing completion of its independent investigation and its assessment of whether a restatement of prior period financial statements is required under U.S. generally accepted accounting principles (GAAP), and, if so, the extent of such restatement. The Audit Committee continues to believe that our current Business Model is unaffected by its investigation into our accounting practices that were in place prior to the adoption of the Business Model in October 2000, and that the historical issues it has identified in the course of its independent investigation principally concern the premature recognition of revenue.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

During the quarter, we announced several new product offerings, including the following:

Unicenter® Web Services Distributed Management is software designed to provide visibility and control for Web services, enabling customers to detect and manage Web services, respond to service interruptions and track business performance.

*e*Trust™ Secure Content Manager is software designed to provide customers with protection from viruses, spam, malicious code, and inappropriate use of the Web by employees in a single solution.

CA Data Protection Suite, which represents a combination of our BrightStor® ARCserve® Backup and *e*Trust™ Antivirus solutions, is designed to protect critical business data through the combination of our backup/restore and antivirus software.

*e*Trust™ Identity and Access Management Suite is a software offering of six integrated *e*Trust™ products designed to enable customers to manage internal and external user populations in a secure on-demand environment and to comply with regulatory mandates.

PERFORMANCE INDICATORS

The following is a summary of some of the quantitative performance indicators (as defined below) that may be used to assess our financial results and condition:

	For the Three Months Ended Dec. 31,			
	2003	2002	Change	Percent Change
	(restated)			
	(dollars in millions)			
Subscription revenue	$ 506	$ 362	$ 144	40%
Total revenue	$ 837	$ 754	$ 83	11%
Subscription revenue as a percent of total revenue	60%	48%	12%	25%
New deferred subscription revenue	$ 670	$ 538	$ 132	25%
Weighted-average license agreement duration in years	2.90	2.80	.10	4%
Cash from continuing operating activities	$ 339	$ 331	$ 8	2%
Income (loss) from continuing operations	$ 17	$ (47)	$ 64	136%

	For the Nine Months Ended Dec. 31,			
	2003	2002	Change	Percent Change
	(restated)			
	(dollars in millions)			
Subscription revenue	$ 1,426	$ 1,019	$ 407	40%

Total revenue	$2,426	$2,252	$174	8%
Subscription revenue as a percent of total revenue	59%	45%	14%	31%
New deferred subscription revenue	$1,462	$1,254	$208	17%
Weighted-average license agreement duration in years	2.80	2.80		
Cash from continuing operating activities	$ 692	$ 736	$ (44)	(6%)
Loss from continuing operations	$ (65)	$ (164)	$ 99	60%

	Dec. 31, 2003	March 31, 2003	Change	Percent Change
	(dollars in millions)			
Total debt	$2,300	$3,126	$(826)	(26%)

Definitions of these performance indicators are as follows:

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Subscription Revenue   Subscription revenue is the ratable revenue recognized in a period from amounts previously recorded as deferred subscription revenue. Therefore, the larger the ratio of subscription revenue to total revenue, the more predictable our revenue streams become. If the weighted-average life of our license agreements remains constant, an increase in deferred subscription revenue will result in an increase in subscription revenue. Therefore, since we expect an increase in deferred subscription revenue for the remainder of fiscal year 2004, we also expect subscription revenue to continue to increase for that period.

Total Revenue   Total revenue is the sum of all revenue line items. Although subscription revenue continues to increase, certain other revenue line items in our Consolidated Condensed Statements of Operations are decreasing. As we noted in our previous filings, decreases were expected in Maintenance and Financing fees.   Software fees and other and Professional services decreased as well. For a more complete description of the reasons for changes in each revenue line item, refer to the Results of Operations section of this Form 10-Q/A.

New Deferred Subscription Revenue   New deferred subscription revenue represents the total undiscounted incremental value (license agreement value) of all new software licenses executed in the current period by our direct sales force. New deferred subscription revenue excludes the value associated with maintenance-only agreements as well as professional services arrangements. New deferred subscription revenue is what we expect to collect over time from our customers. This amount is recognized as subscription revenue ratably over the applicable software license term. These license agreements represent committed payments from customers over periods generally up to three years.

The contribution to revenue from the new deferred subscription revenue applicable to any single license agreement is relatively small, since revenue is recognized ratably over the applicable license agreement term. We believe this allows us to balance the importance of recording new deferred subscription revenue from any single transaction with the importance of entering into transactions on mutually acceptable business terms.

Weighted-Average License Agreement Duration in Years   The weighted-average license agreement duration in years represents the sum of the duration of all software licenses executed during a period, weighted by the contract value of each individual software license. We believe that shorter license agreement durations increase the value customers receive from our software licenses because it enables them to vary their software mix as their needs change. We also believe this flexibility improves our customer relationships and encourages us to be more accountable to each of our customers, which in turn may lead to increased future sales opportunities.

Cash From Continuing Operating Activities   Cash from operations shown on our Consolidated Condensed Statements of Cash Flows represents the excess of cash collected from billings to our customers over cash paid for expenses to run our business. This amount represents what is available to pay for equipment, technology, and other investing activities, to repay debt, pay dividends, repurchase stock, and for other financing purposes. We believe this is an important performance indicator since cash generation over the long term is essential to maintaining a healthy business and providing funds to help fuel growth. We believe generating consistent cash from operations is an indication that we are achieving a high level of customer satisfaction with our products and are appropriately monitoring our expenses.

Income (Loss) From Continuing Operations   Under our Business Model, revenue is generally deferred and recognized ratably over the applicable license agreement term. Under the prior business model, license revenue was generally recognized up-front. However, costs continue to be recorded as expenses as incurred. As a result, we have generally experienced net losses since the transition to our Business Model. For the quarter ended December 31, 2003, we earned $17 million or $.03 per share. We expect to experience increases in net income as we complete the transition to our Business Model.

Total Debt Total debt includes the current and long term portions of our debt obligations. We have made a strategic decision to reduce our overall debt level. Our current fiscal year objective of an $826 million reduction was achieved during the first quarter of fiscal year 2004.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For further descriptions of the items in this section, refer to the discussion of our Results of Operations, Outlook, Liquidity and Capital Resources, and Risk Factors herein and the Notes to the Consolidated Condensed Financial Statements in this Form 10-Q/A.

RESULTS OF OPERATIONS

This Form 10-Q/A reflects adjustments to revenue associated with a correction in the method of accounting for subscription revenue associated with Business Model contracts that replaced existing Business Model contracts and other miscellaneous minor adjustments. Previously, the remaining deferred subscription revenue balance associated with the contract that was being replaced was amortized over the term of the original contract. In accordance with SOP 97-2, Software Revenue Recognition , the correct, and revised, method amortizes the remaining deferred subscription revenue balance over the term of the new contract. The adjustments decreased revenue by $7 million and $15 million and decreased income taxes by $3 million and $6 million for the three and nine month periods ended December 31, 2003, respectively. These adjustments also increased deferred subscription revenue by approximately $14 million at December 31, 2003.

The following table presents the percentage of total revenue and the percentage of period-over-period dollar change for the line items in our Consolidated Condensed Statements of Operations for the three and nine month periods ended December 31, 2003 and 2002. These comparisons of financial results are not necessarily indicative of future results.

	For the Three Months Ended December 31,			For the Nine Months Ended December 31,		
	Percentage of Total Revenue		Percentage of Dollar Change	Percentage of Total Revenue		Percentage of Dollar Change
	2003 (restated)	2002	2003/ 2002	2003 (restated)	2002	2003/ 2002
Revenue						
Subscription revenue	60%	48%	40%	59%	45%	40%
Software fees and other	10%	12%	(5%)	9%	12%	(13%)
Maintenance	17%	23%	(18%)	19%	25%	(18%)
Financing fees	5%	9%	(35%)	6%	10%	(36%)
Professional services	7%	8%	(5%)	7%	8%	(7%)
Total revenue	100%	100%	11%	100%	100%	8%
Expenses						
Amortization of capitalized software costs	14%	15%	1%	14%	16%	(0%)
Cost of professional services	6%	8%	(10%)	7%	8%	(10%)
Selling, general and administrative	37%	44%	(7%)	39%	44%	(6%)
	20%	21%	4%	20%	21%	3%

Product development and enhancements						
Commissions and royalties	9%	8%	21%	8%	8%	2%
Depreciation and amortization of other intangibles	4%	5%	(6%)	4%	5%	(3%)
Other gains/expenses, net	3%	3%	NM	2%	4%	NM
Shareholder litigation settlement	1%		NM	7%		NM
Total operating expenses	93%	104%	NM	100%	105%	NM
Interest expense, net	3%	6%	(34%)	4%	6%	(32%)

NM Not Meaningful

Note: amounts may not add due to rounding

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our results of operations excludes the results of ACCPAC, which is accounted for in the Consolidated Condensed Financial Statements as a discontinued operation. Refer to Note H Divestitures for additional information.

Revenue:

Total Revenue

Total revenue for the quarter ended December 31, 2003 increased $83 million, or 11%, from the prior year comparable quarter to $837 million. This increase was primarily due to the transition to our Business Model that began in the third quarter of fiscal year 2001. This transition resulted in an expected increase in subscription revenue from the prior year comparable period, partially offset by an expected decrease in maintenance and financing fees, as described below. Software fees and other and professional services revenue decreased for the third quarter as described below. In addition, there was a positive impact to revenue of approximately $48 million compared to the prior fiscal year quarter due to fluctuations in foreign currency exchange rates, primarily associated with the strengthening of both the Euro and the British Pound versus the U.S. dollar.

Total revenue for the nine months ended December 31, 2003 increased $174 million, or 8%, from the prior year comparable period to $2.426 billion. Consistent with and for the same reasons as the increase in total revenue for the third quarter of fiscal year 2004 as compared with the third quarter of fiscal year 2003, the increase was primarily due to the transition to our Business Model. For the nine months ended December 31, 2003, there was a positive impact to revenue of approximately $117 million compared to the prior fiscal year period due to fluctuations in foreign currency exchange rates, primarily associated with the strengthening of both the Euro and the British Pound versus the U.S. dollar. This foreign exchange rate impact was partially reduced by the impact of the sale of our banking products group in October 2002, which had contributed $12 million of revenue in the comparable nine month period of the prior fiscal year, as well as a decrease in software fees and other and professional services revenue.

Subscription Revenue

Subscription revenue for the quarter ended December 31, 2003 increased $144 million, or 40%, from the comparable prior year quarter to $506 million. The expected increase was primarily due to the transition to our Business Model in the third quarter of fiscal year 2001. The three month period ended December 31, 2003 included subscription revenue earned from licenses that were completed during the prior 12 months, which did not contribute to the revenue of the prior fiscal year quarter. In addition, there was a positive impact to subscription revenue of approximately $24 million compared to the prior fiscal year quarter due to fluctuations in foreign currency exchange rates. For the quarters ended December 31, 2003 and 2002, we added new deferred subscription revenue of $670 million and $538 million, respectively. Licenses executed under our Business Model in the quarters ended December 31, 2003 and 2002 had weighted-average durations of 2.90 years and 2.80 years, respectively. Annualized deferred subscription revenue represents the total value of all new software license agreements signed during a period divided by the weighted-average duration of all such license agreements recorded during the same period. Annualized deferred subscription revenue increased approximately $39 million, or 20%, for the quarter ended December 31, 2003 over the comparable prior year quarter to $231 million.

Subscription revenue for the nine months ended December 31, 2003 increased $407 million, or 40%, from the comparable prior year period to $1.426 billion. The increase for the nine month period is attributable to the same factors as described above for the third quarter increase. In addition, there was a positive impact to subscription revenue of approximately $56 million compared to the prior fiscal year period due to fluctuations in foreign currency exchange rates. Annualized deferred subscription revenue increased approximately $74 million, or 17%, for the nine month period ended December 31, 2003 over the comparable prior year period to approximately $522 million.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Software Fees and Other

Software fees and other primarily consists of royalties and revenue related to products sold to distribution and original equipment manufacturer (OEM) partners. Revenue related to distribution partners and OEMs is sometimes referred to as our indirect or channel business. Such revenue decreased during the third quarter by $4 million, or 5%, from the comparable prior year quarter to $84 million. The decrease was primarily due to a decrease in product license revenue associated with pricing pressures and our focus on the reorganization of our indirect business.

Software fees and other for the nine months ended December 31, 2003 decreased $33 million, or 13%, from the comparable prior year period to $226 million. The decrease was primarily due to the same reasons as noted above.

Maintenance

As expected, maintenance revenue for the quarter ended December 31, 2003 decreased $31 million, or 18%, to $145 million from the comparable prior year quarter. This decrease in maintenance revenue was attributable to additional license agreements signed under our Business Model, where maintenance revenue, bundled along with license revenue, is reported in Subscription revenue on the Consolidated Condensed Statements of Operations. The combined maintenance and license revenue on these types of license agreements is recognized on a monthly basis ratably over the term of the agreement. The decrease was partially offset by new maintenance revenue earned from customers who elected optional maintenance at the expiration of their non-term-based license agreements and maintenance earned from our indirect business. Maintenance revenue from our indirect business for the quarter ended December 31, 2003 increased $6 million from the comparable prior year quarter.

Maintenance revenue for the nine months ended December 31, 2003 decreased $103 million, or 18%, from the comparable prior year period to $455 million. The decrease for the nine month period was attributable to the same factors as described above for the third quarter decrease. Maintenance revenue from our indirect business for the nine months ended December 31, 2003 increased $12 million from the comparable prior year period.

Financing Fees

Financing fees result from the discounting to present value of product sales with extended payment terms under our prior business model, which required up-front recognition of revenue. This discount initially reduced the related installment accounts receivable, and was referred to as unamortized discounts. The related unamortized discount is amortized over the life of the applicable license agreement and is reported as financing fees. Under our Business Model, unamortized discounts are no longer recorded, since we no longer recognize the present value of license revenue when license agreements are signed. As expected, for the quarter ended December 31, 2003, these fees decreased $23 million, or 35%, from the comparable prior year quarter to $43 million.

Financing fees for the nine months ended December 31, 2003 decreased $83 million, or 36%, from the comparable prior year period to $146 million. The decrease for the nine month period is attributable to the same factors as described above for the third quarter decrease.

Professional Services

Professional services revenue for the quarter ended December 31, 2003 decreased $3 million, or 5%, from the prior year comparable quarter to $59 million. The decrease was primarily attributable to our shift in focus to professional services engagements that are centered on our products.

Professional services revenue for the nine months ended December 31, 2003 decreased $14 million, or 7%, from the prior year comparable period to $173 million. The decrease was primarily attributable to our shift in focus to professional services engagements that are centered on our products. In addition, the cautious IT spending environment also contributed to the decrease for the nine month period ended December 31, 2003.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total Revenue by Geography

The following table presents the amount of revenue earned from the North American and international geographic regions and corresponding percentage changes for the three and nine month periods ended December 31, 2003 and 2002. These comparisons of financial results are not necessarily indicative of future results.

	Three Months Ended December 31,			Nine Months Ended December 31,		
	(dollars in millions)					
	2003	2002	Change	2003	2002	Change
	(restated)			(restated)		
North America	$452	$459	(2%)	$1,376	$1,410	(2%)
International	385	295	31%	1,050	842	25%
	$837	$754	11%	$2,426	$2,252	8%

The increase in international revenue in the three and nine month periods ended December 31, 2003 compared with the prior fiscal year comparable periods was attributable to our European business. The increase was also a result of a positive impact to revenue from fluctuations in foreign currency exchange rates of approximately $48 million and $117 million for the three and nine month periods ended December 31, 2003, respectively. The positive impact to revenue from fluctuations in foreign currency exchange rates in both periods is primarily associated with the strengthening of both the Euro and the British Pound versus the U.S. dollar.

Price changes did not have a material impact on the three and nine month periods ended December 31, 2003 or on the comparable prior fiscal year periods. Barring any significant, unforeseen economic, industry, or Company changes, we believe international revenue will continue to remain at approximately 40% 45% of total revenue for fiscal year 2004.

Expenses:

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 are related to new products and significant enhancements to existing software products that have reached the technological feasibility stage. Amortization of capitalized software costs of $116 million for the quarter ended December 31, 2003 remained consistent with the comparable prior year quarter.

Amortization of capitalized software costs for the nine months ended December 31, 2003 of $349 million remained consistent with the comparable prior year period.

Cost of Professional Services

Cost of professional services consists primarily of the personnel-related costs associated with providing professional services and training to customers. Cost of professional services for the quarter ended December 31, 2003 decreased $6 million, or 10%, from the comparable prior year quarter to $54 million. This decrease was due primarily to a reduction in personnel costs resulting from efficiencies associated with the combination of our pre-sales technical and post-sales professional services organizations in fiscal year 2004.

Cost of professional services for the nine months ended December 31, 2003 decreased $17 million, or 10%, from the comparable prior year period to $161 million. The decrease for the nine month period was attributable to the same factors as described above for the third quarter decrease.

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Selling, General and Administrative (SG&A)

SG&A expenses for the quarter ended December 31, 2003 decreased $23 million, or 7%, from the comparable prior year quarter to $306 million. The decrease was primarily attributable to a reduction in bad debt expense of $34 million as a result of a declining installment accounts receivable balances related to the prior business model. For the quarter ended December 31, 2003, we incurred legal and other professional service expenses associated with the investigations being conducted by the Audit Committee and the SEC and the U.S. Attorney s Office of approximately $11 million, which represents an increase of approximately $9 million from the comparable prior year quarter.

SG&A expenses for the nine month period ended December 31, 2003 decreased $58 million, or 6%, compared to the prior fiscal year period to $944 million. The decrease was primarily attributable to a reduction in bad debt expense of $92 million, partially offset by a $15 million expense for severance and other termination benefits in connection with the reorganization of the U.S. channel sales organization and the creation of CA Technology Services in April 2003. For the nine month period ended December 31, 2003, we incurred legal and other professional service expenses associated with the investigations being conducted by the Audit Committee and the SEC and the U.S. Attorney s Office of approximately $16 million, which represents an increase of approximately $11 million from the comparable prior year period.

Product Development and Enhancements

For the quarter ended December 31, 2003, product development and enhancement expenditures, also referred to as research and development, increased $6 million, or 4%, from the comparable prior year quarter to $167 million. As a percentage of operating expenses (Total expenses before interest and taxes excluding the impact of Other gains/expenses, net and Shareholder litigation settlement), product development and enhancement expenditures increased to approximately 22% in the quarter ended December 31, 2003 from approximately 21% in the prior fiscal year comparable quarter. This increase resulted from our continued focus on and investment in product development and enhancements for emerging technologies such as wireless, Web services and on-demand computing, as well as a broadening of our enterprise product offerings, while other operating expenses declined.

Product development and enhancement expenditures for the nine month period ended December 31, 2003, increased $13 million, or 3%, from the comparable prior year period to $494 million. As a percentage of operating expenses, product development and enhancement expenditures increased to approximately 22% in the nine month period ended December 31, 2003 from approximately 21% in the prior fiscal year comparable period. This increase was attributable to the same factors as described above for the third quarter increase.

Commissions and Royalties

Commissions and royalties for the third quarter of fiscal year 2004 increased $13 million, or 21%, from the comparable prior year quarter to $75 million. This increase was primarily due to the increase in new deferred subscription revenue recorded in the third quarter of fiscal year 2004 from the comparable prior year period, partially offset by a $3 million reduction in royalties to third parties, as we continue to invest internally on product development and enhancements.

Commissions and royalties for the nine months ended December 31, 2003 increased $3 million, or 2%, from the comparable prior year period to $182 million. The increase for the nine month period was also primarily attributable to the increase in new deferred subscription revenue as described above, partially offset by a $10 million reduction in royalties to third parties.

Depreciation and Amortization of Other Intangibles

Depreciation and amortization of other intangible assets for the third quarter of fiscal year 2004 decreased $2 million, or 6%, from the comparable prior year period to $33 million. The decrease was primarily attributable to certain assets becoming fully depreciated/amortized.

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Depreciation and amortization of other intangible assets for the nine months ended December 31, 2003 decreased $3 million, or 3% from the comparable prior year period to $100 million. The decrease was attributable to the same factors as described above for the third quarter decrease.

Other Gains/Expenses

Other gains/expenses of $22 million in the quarter ended December 31, 2003 included expenses of $21 million related to foreign currency exchange rate fluctuations and a $1 million expense related to legal proceedings. Other gains/expenses of $21 million in the prior year comparable quarter included expenses of $19 million related to foreign currency exchange rate fluctuations and a $2 million expense related to legal proceedings.

Other gains/expenses of $46 million for the nine months ended December 31, 2003 included expenses of $35 million related to foreign currency exchange rate fluctuations, $20 million and $5 million recorded in the second and first quarter of fiscal year 2004, respectively, for the settlement of litigation with the Canopy Group and Center 7 and $4 million related to legal proceedings. These expenses were partially offset by an $18 million net gain on the sale of certain fixed assets. Other gains/expenses of $80 million in the prior year comparable period included a $64 million expense related to foreign currency exchange rate fluctuations, a $10 million payment to Ranger Governance Ltd., a $4 million expense related to legal proceedings, and a $2 million loss on the sale of certain fixed assets.

Shareholder Litigation Settlement

The shareholder litigation settlement expense was based on the NYSE closing price of our common stock on the last day of the most recently completed quarter and also included certain administrative costs associated with the settlement. The estimated value of the shareholder litigation settlement increased $8 million in the third quarter of fiscal year 2004. The third quarter increase was the result of the change in the NYSE closing price of our common stock on December 31, 2003 to $27.34 as compared to the closing price of $26.11 on September 30, 2003. For the nine months ended December 31, 2003, the aggregate shareholder litigation settlement expense recorded totaled $158 million. Until all settlement shares are issued, the projected impact will be reviewed quarterly and the expense adjusted accordingly. Refer to Note J Shareholder Litigation Settlement and Part II, Item 1. Legal Proceedings of the Original Filing for additional information.

Net Interest Expense

Net interest expense for the third quarter of fiscal year 2004 decreased $15 million, or 34%, as compared to the prior fiscal year third quarter to $29 million. Of the change, $12 million was due to the decrease in average debt outstanding, $1 million was due to the decrease in the weighted-average interest rate and the remainder was due to accelerated amortization of financing fees in the third quarter of fiscal year 2003.

Net interest expense for the first nine months of fiscal year 2004 decreased $41 million, or 32%, as compared to the prior fiscal year comparable period to $89 million. The decrease was primarily due to a reduction in average debt outstanding, which resulted in a $33 million decrease in interest expense, a reduction in the weighted average interest rate, which resulted in an $8 million decrease in interest expense, and accelerated amortization of financing fees in the third quarter of fiscal year 2003. This decrease was partially offset by a $3 million gain related to the early retirement of a portion of outstanding debt in the comparable prior fiscal year period.

Operating Margins:

For the third quarter of fiscal year 2004, our pre-tax income from continuing operations was $27 million as compared to a pre-tax loss from continuing operations of $73 million in the prior year comparable quarter. The improvement in pre-tax operating results for the three months ended December 31, 2003 as compared to the quarter ended December 31, 2002 was primarily due to an increase in revenue, as noted above.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On a year to date basis, our pre-tax loss from continuing operations was $97 million as compared to a pre-tax loss from continuing operations of $251 million in the comparable prior fiscal year period. The reduction in pre-tax loss from continuing operations for the nine months ended December 31, 2003 as compared to the comparable prior year period was primarily due to an increase in revenue and a decrease in bad debt expense as noted above, partially offset by the shareholder litigation settlement expense of $158 million recorded during the first nine months of fiscal year 2004.

Our effective tax rate from continuing operations was 37% for the quarter ended December 31, 2003. Our effective tax benefit from continuing operations was 36% for the quarter ended December 31, 2002 and 33% and 35% for the nine month periods ended December 31, 2003 and 2002, respectively.

OUTLOOK *(as originally reported)*

This outlook for the remainder of fiscal year 2004 contains certain forward looking statements and information relating to us that are based on the beliefs and assumptions made by management, as well as information currently available to management. Should business conditions change or should our assumptions prove incorrect, actual results may vary materially from those described below. We do not intend to update these forward looking statements except as may be required by law.

The outlook for the overall economy and the IT environment continues to be difficult to predict. The outlook for our full fiscal year 2004 results is largely based on the assumption that there will be a modest improvement in the current economic and IT environments. We also believe that customers will continue to be cautious with their technology purchases. Our outlook for the fourth quarter of fiscal year 2004 is to generate revenue in the range of $845 million to $865 million and diluted earnings per share in the range of $.03 to $.05. Our outlook for the full fiscal year 2004 is to generate revenue in the range of $3.286 billion to $3.306 billion and diluted loss per share in the range of $.07 to $.05. The per share forecasts for the fourth quarter and full fiscal year 2004 exclude the expected gain from the ACCPAC disposition.

LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and marketable securities totaled $1.352 billion at December 31, 2003, an increase of $376 million from the September 30, 2003 balance of $976 million. Cash generated from continuing operating activities for the quarters ended December 31, 2003 and 2002 was $339 million and $331 million, respectively.

For the nine months ended December 31, 2003, cash, cash equivalents and marketable securities had a net decrease of approximately $144 million from March 31, 2003. Cash generated from continuing operating activities for the nine month periods ended December 31, 2003 and 2002 was $692 million and $736 million, respectively. Cash generated from continuing operating activities for the nine months ended December 31, 2003 versus the comparable prior year period was negatively impacted by an increase in taxes paid of approximately $108 million and legal settlement payments of approximately $36 million. The increase in taxes paid during the nine month period ended December 31, 2003 was primarily the result of the timing of estimated tax payments. The reduction in cash generated from continuing operating activities was partially offset by the collection in the current period of one-time up-front payments from customers of approximately $87 million and a reduction in cash paid for interest of approximately $47 million. We used existing cash balances at March 31, 2003 and cash from operations to repay approximately

$826 million in outstanding debt and to purchase approximately $7 million in treasury stock during the first nine months of fiscal year 2004.

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As of December 31, 2003 and March 31, 2003, our debt arrangements consisted of the following:

	December 31, 2003		March 31, 2003	
	Maximum Available	Outstanding Balance	Maximum Available	Outstanding Balance
	(in millions)			
Debt Arrangements:				
1999 Revolving Credit Facility	$	$	$400	$ 350
2002 Revolving Credit Facility	470		440	
Commercial Paper	400		400	
6.770% Senior Notes due April 2003				64
6.250% Senior Notes due April 2003				412
6.375% Senior Notes due April 2005		825		825
5.000% Convertible Senior Notes due March 2007		660		660
6.500% Senior Notes due April 2008		350		350
1.625% Convertible Senior Notes due December 2009		460		460
International line of credit	5		3	
Other		5		5
Total		$2,300		$ 3,126

1999 Revolving Credit Facility

We repaid the $350 million balance that was drawn under the 1999 Revolving Credit Facility during May 2003. This facility expired during the first quarter of fiscal year 2004.

2002 Revolving Credit Facility

On December 31, 2002, we entered into an unsecured, bank revolving credit facility (the 2002 Revolving Credit Facility). The maximum amount that may be outstanding at any time under the 2002 Revolving Credit Facility is $470 million. The 2002 Revolving Credit Facility expires January 31, 2005, and no amount was drawn as of December 31, 2003. The interest rates on the 2002 Revolving Credit Facility are determined based on a ratings grid, which applies a margin to the prevailing London InterBank Offered Rate (LIBOR). We capitalized the initial transaction fees associated with the 2002 Revolving Credit Facility, which totaled approximately $6 million. We are amortizing these fees over the term of the 2002 Revolving Credit Facility in Interest expense, net on the Consolidated Condensed Statements of Operations.

Commercial Paper

As of December 31, 2003, there were no borrowings outstanding under our $400 million commercial paper (CP) program. We expect any future outstanding borrowings under the CP program to be supported by cash and marketable securities on hand and undrawn amounts available under the 2002 Revolving Credit Facility.

Fiscal Year 1997 Senior Notes

In fiscal year 1997, $320 million of unsecured 6.77% Senior Notes were issued in a private transaction pursuant to an exemption from registration under the Securities Act of 1933. The 6.77% Senior Notes called for annual repayments of $64 million each April, commencing in April 1999 with final payment in April 2003. The $64 million balance of the 6.77% Senior Notes was repaid in April 2003.

Fiscal Year 1999 Senior Notes

In fiscal year 1999, we issued $1.750 billion of unsecured Senior Notes in a transaction pursuant to Rule 144A under the Securities Act of 1933 (Rule 144A). Amounts borrowed, rates, and maturities for each issue were $575 million at 6.25% due April 15, 2003, $825 million at 6.375% due April 15, 2005, and $350 million at 6.5% due April 15, 2008. During the first quarter of fiscal year 2004, we repaid the $412 million remaining balance of the 6.25% Senior Notes. As of December 31, 2003, $825 million and $350 million of our 6.375% and 6.5% Senior Notes, respectively, remained outstanding.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

5% Convertible Senior Notes

In fiscal year 2002, we issued $660 million of unsecured 5% Convertible Senior Notes (5% Notes), due March 15, 2007, in a transaction pursuant to Rule 144A. The 5% Notes are senior unsecured indebtedness and rank equally with all existing senior unsecured indebtedness. Concurrent with the issuance of the 5% Notes, we entered into call spread repurchase option transactions to partially mitigate potential dilution from conversion of the 5% Notes. The Notes may not be redeemed by the Company during the first 3 years that they are outstanding and may be called thereafter until maturity at the Company s option at declining premiums to par. For further information, refer to Note 6 to the Consolidated Financial Statements included in our Form 10-K for the fiscal year ended March 31, 2003.

1.625% Convertible Senior Notes

In fiscal year 2003, we issued $460 million of unsecured 1.625% Convertible Senior Notes (1.625% Notes), due December 15, 2009, in a transaction pursuant to Rule 144A. The 1.625% Notes are senior unsecured indebtedness and rank equally with all existing senior unsecured indebtedness. Concurrent with the issuance of the 1.625% Notes, we entered into call spread repurchase option transactions to partially mitigate potential dilution from conversion of the 1.625% Notes. For further information, refer to Note 6 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended March 31, 2003.

International Line of Credit

An unsecured and uncommitted multi-currency line of credit is available to meet short-term working capital needs for subsidiaries operating outside the United States. This line totals $5 million, and less than $1 million was drawn under this credit line as of December 31, 2003.

Other Matters

In December 2003, the United States District Court for the Eastern District of New York approved the settlement of all outstanding litigation related to past accounting issues, subject to appeal. Included in the settlement are both shareholder and ERISA class-action suits and related derivative litigation. As part of the settlement we will issue to the shareholder classes a total of up to 5.7 million shares of our common stock, which includes payment of attorneys fees. If our share price is below $23.43 per share at the time of distribution, up to 2.2 million of the 5.7 million shares would be payable in cash at that price or a maximum of $51.546 million in cash. In that case, the stock portion of the settlement would be reduced to no less than 3.5 million shares. In January 2004, approximately 1.6 million settlement shares were issued along with approximately $3.3 million to the plaintiffs attorneys for attorney fees and related expenses. The balance of the shares will be issued after all claims submitted pursuant to the settlement plans have been received. See Note J Shareholder Litigation Settlement of this Form 10-Q/A for additional information.

On October 9, 2003, due primarily to the ongoing independent investigation by the Audit Committee, Moody s announced that it lowered our senior unsecured rating to Baa3 from Baa2 and our short-term rating for commercial paper to Prime-3 from Prime-2. These ratings are under review for possible further downgrade. Also on October 9, 2003, Standard & Poor s announced that it placed our BBB+ senior unsecured rating and our A-2 commercial paper rating on CreditWatch with negative implications. As a result of the downgrade by Moody s, we will pay additional facility fees of approximately $0.6 million annually under the 2002 Revolving Credit Facility and, should we choose to borrow in the future under the 2002 Revolving Credit Facility, our cost of borrowing would be higher. This, or any other future downgrade, could also affect our ability to obtain additional financing in the future and may affect the terms of any such financing.

Peak borrowings under all debt facilities during the third quarter of fiscal year 2004 totaled approximately $2.3 billion, with a weighted-average interest rate of 5.20%. Peak borrowings under all debt facilities during the first nine months of fiscal year 2004 totaled approximately $3.126 billion, with a weighted-average interest rate of 5.08%.

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As of December 31, 2003, the cumulative number of shares purchased under our various open market common stock repurchase programs since fiscal year 1991 was 179 million, including less than 1 million shares purchased in the third quarter of fiscal year 2004. The remaining number of shares authorized for repurchase is approximately 21 million.

Capital resource requirements as of December 31, 2003 consisted of lease obligations for office space, equipment, mortgage or loan obligations, and amounts due as a result of product and company acquisitions.

It is expected that existing cash, cash equivalents, marketable securities, the availability of borrowings under existing and renewable credit lines, and cash expected to be provided from operations will be sufficient to meet ongoing cash requirements. We expect our long-standing history of providing extended payment terms to our customers to continue.

CRITICAL ACCOUNTING POLICIES AND BUSINESS PRACTICES

A detailed discussion of our critical accounting policies and the use of estimates in applying those policies is included in our Form 10-K for the year ended March 31, 2003. In many cases, a high degree of judgment is required, either in the application and interpretation of accounting literature or in the development of estimates that impact our financial statements. These estimates may change in the future if underlying assumptions or factors change. The following is a summary of the critical accounting policies for which estimates were updated as of December 31, 2003.

Accounts Receivable

The allowance for doubtful accounts is a valuation account used to reserve for potential impairment of accounts receivable on the balance sheet. In developing the estimate for the allowance for doubtful accounts, we rely on several factors, including:

- Historical information, such as general collection history of long-term software agreements;
- Current customer information/events, such as extended delinquency, requests for restructuring and filing for bankruptcy;
- Results of analytical analysis of both historical and current data; and
- Overall economic environment.

A 10% change in the estimated default rate used to calculate the general allowance for doubtful accounts would have an approximate $7 million effect on the balance of the allowance for doubtful accounts as of December 31, 2003. Assumptions and estimates used to calculate the allowance for the first three quarters of fiscal 2004 have remained constant.

Deferred Tax Assets

Realization of deferred tax assets is based on the assumption that we will be able to generate sufficient future taxable income so that these assets will be realized. The factors that we consider in assessing the likelihood of realization include the forecast of future taxable income and available tax planning strategies that could be implemented to realize the deferred tax assets. Future results may vary from these estimates. At this time it is not practicable to determine if we will need to increase the valuation allowance or if such future valuations will have a material impact on our financial statements.

Goodwill, Capitalized Software Products, and Other Intangible Assets

SFAS No. 142 requires an impairment-only approach to accounting for goodwill. Absent any prior indicators of impairment, we perform an annual impairment analysis during the fourth quarter of our fiscal year. No indicators of impairment were identified during the first nine months of fiscal year 2004.

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The carrying value of capitalized software products, both purchased software and internally developed software, and other intangible assets, are reviewed on a regular basis for the existence of internal and external facts or circumstances that may suggest impairment. Such facts and circumstances considered include an assessment of the net realizable value for capitalized software products and the future recoverability of cost for other intangible assets as of the balance sheet date. No indicators of impairment were identified during the first nine months of fiscal year 2004.

Accounting for Stock-Based Compensation

As described in Note D Accounting for Stock-Based Compensation of this Form 10-Q/A, we have used the Black-Scholes option-pricing model historically to determine the estimated fair value of each option grant. The Black-Scholes model includes assumptions regarding dividend yields, expected volatility, expected lives, and risk-free interest rates. These assumptions reflect our best estimates, but these items involve uncertainties based on market conditions generally outside of our control. As a result, if other assumptions had been used in the current period, stock-based compensation expense could have been materially impacted. Furthermore, if different assumptions are used in future periods, stock-based compensation expense could be materially impacted in future years.

Legal Contingencies

We are currently involved in various legal proceedings and claims. Periodically, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any legal proceeding or claim is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Due to the uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending litigation and claims and may revise our estimates. Such revisions could have a material impact on our results of operations and financial condition. Refer to Part II, Item 1. Legal Proceedings of the Original Filing for a description of our material legal proceedings.

RISK FACTORS

Current and potential stockholders should consider carefully the risk factors described below. Any of these factors, or others, many of which are beyond our control, could negatively affect our revenue, profitability, and cash flow in the future.

Operating results and revenue are subject to fluctuations caused by many factors.

Quarterly and annual results of operations are affected by a number of factors, including those listed below, which in turn could adversely affect our revenue, profitability, and cash flow in the future.

- Demand for products and services;
- Length of sales cycle;
- Customer implementation of our products;

Magnitude of price and product competition;

Introduction of new hardware;

General economic conditions in countries in which customers do a substantial amount of business;

Customer budgets for hardware and software;

Ability to develop and introduce new or enhanced versions of our products;

Changes in foreign currency exchange rates;

Ability to control costs;

The size of licensing transactions;

Reorganizations of the sales and technical services forces;

Litigation, government and internal investigations, and settlement of litigation;

Ability to retain and attract qualified personnel; and

Reaction of customers to our Business Model.

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Any of the foregoing factors, among others, may cause our operating expenses to be disproportionately high or cause our revenue and operating results to fluctuate. As a consequence, our business, financial condition, operating results, and cash flow could be adversely affected.

The success of our international operations is subject to many factors.

International revenue has historically represented a significant percentage of our total worldwide revenue. Continued success in selling our products outside of the United States will depend on a variety of factors, including:

- Reorganizations of the sales and technical services forces;
- Fluctuations in foreign exchange currency rates;
- Staffing key managerial positions;
- General economic conditions in foreign countries;
- Political instability; and
- Trade restrictions such as tariffs, duties, or other controls affecting foreign operations.

Any of the foregoing factors, among others, could adversely affect our business, financial condition, operating results, and cash flow.

We could be subject to fines, penalties, or other sanctions as a result of a joint inquiry by the SEC and U.S. Attorney s Office.

As previously reported, we have been responding to an ongoing joint inquiry being conducted by the staff of the Northeast Regional Office of the Securities and Exchange Commission and the United States Attorney s Office for the Eastern District of New York concerning certain of our accounting practices. On January 8, 2004, we received a Wells Notice from the staff of the SEC indicating that the staff is considering recommending that the SEC bring a civil enforcement proceeding against us. See Part II, Item 1. Legal Proceedings of the Original Filing for additional information. Although we are unable at this point to predict the scope or outcome of this inquiry, it is possible that it could result in the institution of administrative, civil injunctive or criminal proceedings, the imposition of fines and penalties, suspensions or debarments from government contracts, and/or other remedies and sanctions. The conduct of these proceedings could negatively impact our stock price. In addition, we expect to continue to incur expenses associated with responding to these agencies, regardless of the outcome, and the efforts and attention of our management team may be diverted from normal business operations. This could adversely affect our business, financial condition, operating results, and cash flow.

The Audit Committee s internal investigation is continuing.

As previously reported, in response to the joint inquiry referred to above, the Audit Committee of our Board of Directors is conducting an internal investigation into the timing of revenue recognition by the Company. The Audit Committee has made substantial progress and is nearing completion of its investigation, including an assessment of whether a restatement of prior period financial statements is required under GAAP, and, if so, the extent of such restatement. The Audit Committee continues to believe that our current Business Model is unaffected by its investigation into our accounting practices that were in place prior to the adoption of the Business Model in

October 2000. While the investigation is nearing completion, we cannot predict the timing or possible outcome of this investigation. The outcome of the investigation could have an adverse effect on our stock price and/or could result in the restatement of prior period financial statements which could adversely affect our business, financial condition, operating results, and cash flow. See Part II, Item 1. Legal Proceedings of the Original Filing for additional information.

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Certain software is licensed from third parties.

Some of our products contain software licensed from third parties. Some of these licenses may not be available to us in the future on terms that are acceptable or allow our products to remain competitive. The loss of these licenses or the ability to maintain any of them on commercially acceptable terms could delay development of future products or enhancement of existing products. This could adversely affect our business, financial condition, operating results, and cash flow.

Our products must remain compatible with ever-changing operating environments.

IBM, HP, Sun Microsystems, and Microsoft are the largest suppliers of systems and computing software and, in most cases, are the manufacturers of the computer hardware systems used by most of our customers. Historically, these operating system developers have modified or introduced new operating systems, systems software, and computer hardware. Such new products could in the future incorporate features that perform functions currently performed by our products or could require substantial modification of our products to maintain compatibility with these companies hardware or software. Although we have to date been able to adapt our products and our business to changes introduced by hardware manufacturers and system software developers, there can be no assurance that we will be able to do so in the future. Failure to adapt our products in a timely manner to such changes or customer decisions to forego the use of our products in favor of those with comparable functionality contained either in the hardware or operating system could have a material adverse effect on our business, financial condition, operating results, and cash flow.

We have a significant amount of debt.

As of December 31, 2003, we had approximately $2.3 billion of debt outstanding, consisting of unsecured fixed-rate senior note obligations, convertible senior notes, and unsecured multi-currency credit facilities. We expect that existing cash, cash equivalents, marketable securities, cash provided from operations, and our bank credit facilities will be sufficient to meet ongoing cash requirements. Failure to generate sufficient cash as our debt becomes due or to renew credit lines prior to their expiration may adversely affect our business, financial condition, operating results, and cash flow.

The Company s credit ratings have been downgraded and could be downgraded further.

Our Moody s credit rating was recently downgraded. Moody s, Standard & Poor s, or any other credit rating agency may further downgrade or take other negative action with respect to our credit ratings in the future. If our credit ratings are further downgraded or other negative action is taken, we would be required to, among other things, pay additional facility fees and interest under our credit agreements. Any downgrades could affect our ability to obtain additional financing in the future and may affect the terms of any such financing. This could have a material adverse effect on our business, financial condition, operating results, and cash flow.

The computer software business is highly competitive.

The market in which we compete is marked by rapid and substantial technological change, the steady emergence of new companies and products, evolving industry standards, and changing customer needs. We compete with many established companies in the markets we serve, and some of these companies may have substantially greater financial, marketing and technological resources, larger distribution capabilities, earlier access to customers, and greater opportunity to address customers various information technology requirements than us. We also compete with many smaller, less established companies that may be able to focus more effectively on specific product segments or markets. Historically, we have competed primarily on the basis of our products features and performance. As product pricing becomes a more important criterion for our customers, we may experience increased competition from certain, low-price competitors. To remain competitive, we must develop new products and continue to enhance existing products. We may be unsuccessful in our ability to develop new releases or new products that meet the needs of our customers in

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light of competitive alternatives available in the market. In addition, the introduction of new products or versions of existing products may not meet with customer acceptance or may be delayed. Our inability to bring new products and enhancements to existing products to the market in a timely manner or the failure of these products to achieve market acceptance could have a material adverse effect on our business, financial condition, operating results, and cash flow.

Customers are still adapting to our Business Model.

Our Business Model affords customers significant flexibility in licensing transactions. For example, under our Business Model, we offer software licenses on a month-to-month or other short-term basis in order to allow customers the opportunity to try our software products without committing to a multi-year license obligation. Transactions such as these increase the risk that customers will not fully implement our software and will not enter into a long-term relationship with us. This effect could be diminished if customers elect cost certainty by committing to longer license agreement periods. Additionally, customer preference for payment (upfront, annual or monthly installments) could impact the amount of cash generated from operations in any period. This could adversely affect our business, financial condition, operating results, and cash flow.

Failure to protect our intellectual property rights would weaken our competitive position.

Our future success is dependent upon our proprietary technology. We protect our proprietary information through the use of patent, copyright, trademark, trade secret laws, confidentiality procedures, and contractual provisions. Notwithstanding our efforts to protect our proprietary rights, policing unauthorized use or copying of our proprietary information is difficult. Unauthorized use or copying occurs from time to time and litigation to enforce intellectual property rights could result in significant costs and diversion of resources. Moreover, the laws of some foreign jurisdictions do not afford the same degree of protection to our proprietary rights as do the laws of the United States. For example, shrink-wrap or click-on licenses may be unenforceable in whole or in part in some jurisdictions in which we operate. In addition, patents we have obtained may be circumvented, challenged, invalidated, or designed around by other companies. Our inability to adequately protect our intellectual property for these or other reasons could adversely affect our business, financial condition, operating results, and cash flow.

We may become dependent upon large transactions.

We have historically been dependent upon large-dollar enterprise transactions with individual customers. As a result of the flexibility afforded by our Business Model, we anticipate that there will be fewer of these transactions in the future. There can be no assurances, however, that we will not be reliant on large-dollar enterprise transactions in the future, and the failure to close such transactions could adversely affect our business, financial condition, operating results, and cash flow.

Customer decisions are influenced by general economic conditions.

Our products are designed to improve the productivity and efficiency of our customers information processing resources. However, a general slowdown in the world economy or a particular region could cause customers to delay or forgo decisions to license new products or to upgrade their existing environments, which could adversely affect our business, financial condition, operating results, and cash flow.

Third-party microcode could impact product development.

We anticipate ongoing use of microcode or firmware provided by hardware manufacturers. Microcode and firmware are essentially software programs in hardware form and are therefore less flexible than other types of software. We believe that such continued use will not have a significant impact on our operations and that our products will remain compatible with any changes to such code. However, there can be no assurance that future technological developments involving such microcode will not have an adverse impact on our business, financial condition, operating results, and cash flow.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The software business is marked by easy entry and large, entrenched businesses.

Many companies with whom we compete, including IBM, Sun Microsystems, HP, and other large computer manufacturers, have substantial resources, a larger installed base of customers in any particular market niche, as well as the ability to develop and market software programs similar to and competitive with the products offered by us. Additionally, these producers can bundle hardware, software, and services together, which is a disadvantage for us since we do not provide hardware and have far fewer services offerings. Competitive products are also offered by numerous independent software companies that specialize in specific aspects of the highly fragmented software industry. Some, like Microsoft, Oracle, and SAP, are the leading developers and vendors in their specialized markets. In addition, new companies enter the market on a frequent and regular basis, offering products that compete with those offered by us. Increased competition also results from consolidation of existing companies within the industry. Additionally, many customers historically have developed their own products that compete with those offered by us. Competition from any of these sources can result in price reductions, or displacement of our products, which could have a material adverse effect on our business, financial condition, operating results, and cash flow.

Future product development is dependent upon access to third-party operating systems.

In the past, licensees using proprietary operating systems were furnished with source code, which makes the operating system generally understandable to programmers, object code, which directly controls the hardware and other technical documentation. Since the availability of source code facilitated the development of systems and applications software, which must interface with the operating systems, independent software vendors such as us were able to develop and market compatible software. Microsoft, IBM, and other vendors have a policy of restricting the use or availability of the source code for some of their operating systems. To date, this policy has not had a material effect on us. Some companies, however, may adopt more restrictive policies in the future or impose unfavorable terms and conditions for such access. These restrictions may, in the future, result in higher research and development costs for us in connection with the enhancement and modification of our existing products and the development of new products. Although we do not expect that such restrictions will have this adverse effect, there can be no assurances that such restrictions or other restrictions will not have a material adverse effect on our business, financial condition, operating results, and cash flow.

The markets for some or all of our key product areas may not grow.

We have identified six product areas: enterprise management; security; storage; portal and business intelligence; application life cycle management; and data management and application development. Some or all of these areas may not grow, may decline in growth, or customers may decline or forgo use of products in some or all of these product areas. This is particularly true in newly emerging areas, such as portal and business intelligence. A decline in these product areas could result in decreased demand for our products, which would adversely impact our business, financial condition, operating results, and cash flow.

Third parties could claim that our products infringe their intellectual property rights.

From time to time we receive notices from third parties claiming infringement of various forms of their intellectual property. Investigation of these claims, whether with or without merit, can be expensive and could affect development, marketing, or shipment of our products. As the number of software patents issued increases, it is likely that additional claims, with or without merit, will be asserted. Defending against such claims is time consuming and could result in significant litigation expense or settlement with unfavorable terms that could adversely affect our business, financial condition, operating results, and cash flow.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Fluctuations in foreign currencies could result in transaction losses.

Most of the revenue and expenses of our foreign subsidiaries are denominated in local currencies. Given the relatively long sales cycle that is typical for many of our products, foreign currency fluctuations could result in substantial changes in the foreign currency impact on these transactions. Additionally, fluctuations of the exchange rate of foreign currencies against the U.S. dollar can affect our revenue within those markets, all of which may adversely impact our business, financial condition, operating results, and cash flow.

Acts of terrorism or war may adversely affect our business.

Acts of terrorism, acts of war, and other unforeseen events may cause damage or disruption to our properties, business, employees, suppliers, distributors, resellers, and customers, which could have an adverse effect on our business, financial condition, operating results, and cash flow. Such events may also result in an economic slowdown in the United States or elsewhere, which could adversely affect our business, financial condition, operating results, and cash flow.

Our stock price may continue to be volatile.

Our stock price is subject to significant fluctuations in response to variations in quarterly operating results, the gain or loss of significant license agreements, changes in earnings estimates by analysts, announcements of technological innovations or new products by us or our competitors, changes in domestic and international economic and business conditions, general conditions in the software and computer industries, and other events or factors. In addition, the stock market in general has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries that are similar or related to those in which we operate and that have been unrelated to the operating performance of these companies. These market fluctuations have in the past adversely affected and may continue to adversely affect the market price of our common stock.

Potential European Union tariffs or United States Congressional action in connection with the extraterritorial income regime could adversely affect our business.

The World Trade Organization (WTO) recently authorized sanctions against the United States for operating the extraterritorial income regime. This regime relates to a provision in the United States Tax Code providing tax incentives on products manufactured in the United States and exported for sale. The WTO has ruled the regime to be an illegal export subsidy and has now authorized the European Union (EU) to impose tariffs on certain United States-made products imported into the EU. EU officials have indicated that they will not raise tariffs provided that the United States shows substantial progress and a commitment to act within the next year. We cannot be certain, however, what impact the potential EU tariffs could have on the software industry or the economy in general. Additionally, we cannot be certain that any legislation replacing the extraterritorial income regime will continue to provide us with the level of tax incentives received under the existing regime. We currently save approximately $12 million per year in United States federal income tax under the current extraterritorial income regime.

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PART II. OTHER INFORMATION

Item 6:

EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

15.1	Accountants acknowledgement letter
31.1	Certification of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

The Registrant filed a Report on Form 8-K dated October 9, 2003 to report an event under Items 5 and 7.

The Registrant filed a Report on Form 8-K dated October 10, 2003 to report an event under Item 5.

The Registrant filed a Report on Form 8-K dated October 22, 2003 to report an event under Items 7 and 12.

The Registrant filed a Report on Form 8-K dated December 23, 2003 to report an event under Items 5 and 7.

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.

COMPUTER ASSOCIATES INTERNATIONAL, INC.

Dated: June 14, 2004	By: /s/ Kenneth D. Cron Kenneth D. Cron Interim Chief Executive Officer
Dated: June 14, 2004	By: /s/ Jeff Clarke Jeff Clarke Chief Operating Officer and Chief Financial Officer
Dated: June 14, 2004	By: /s/ Douglas E. Robinson Douglas E. Robinson

Senior Vice President and Controller
Principal Accounting Officer