CA, INC.
Form 10-Q
October 25, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______
Commission File Number 1-9247

CA, Inc.
(Exact name of registrant as specified in its charter)

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

1-800-225-5224
(Registrant's telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
(Check one:)

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

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

Title of Class	Shares Outstanding
Common Stock	as of October 18, 2013
par value $0.10 per share	451,274,478

Table of Contents

CA, INC. AND SUBSIDIARIES
INDEX

Table of Contents

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

The Board of Directors and Stockholders
CA, Inc.:

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

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of CA, Inc. and subsidiaries as of March 31, 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated May 9, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 31, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP
New York, New York
October 25, 2013

Table of Contents

Item 1.
CA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except share amounts)

	September 30, 2013 (unaudited)	March 31, 2013
Assets:		
Current assets:		
Cash and cash equivalents	$2,790	$2,593
Short-term investments	9	183
Trade accounts receivable, net	588	856
Deferred income taxes	358	346
Other current assets	166	148
Total current assets	$3,911	$4,126
Property and equipment, net of accumulated depreciation of $826 and $786, respectively	$306	$311
Goodwill	5,920	5,871
Capitalized software and other intangible assets, net	1,214	1,231
Deferred income taxes	76	77
Other noncurrent assets, net	168	195
Total assets	$11,595	$11,811
Liabilities and stockholders' equity:		
Current liabilities:		
Current portion of long-term debt	$11	$16
Accounts payable	80	93
Accrued salaries, wages and commissions	232	304
Accrued expenses and other current liabilities	381	406
Deferred revenue (billed or collected)	2,038	2,482
Taxes payable, other than income taxes payable	43	77
Federal, state and foreign income taxes payable	58	151
Deferred income taxes	12	12
Total current liabilities	$2,855	$3,541
Long-term debt, net of current portion	$1,768	$1,274
Federal, state and foreign income taxes payable	175	338
Deferred income taxes	122	120
Deferred revenue (billed or collected)	856	975
Other noncurrent liabilities	144	113
Total liabilities	$5,920	$6,361
Stockholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized; No shares issued and outstanding	$—	$—
Common stock, $0.10 par value, 1,100,000,000 shares authorized; 589,695,081 and 589,695,081 shares issued; 446,646,793 and 448,149,131 shares outstanding, respectively	59	59
Additional paid-in capital	3,566	3,593
Retained earnings	5,704	5,357
Accumulated other comprehensive loss	(175)	(155)

Treasury stock, at cost, 143,048,288 and 141,545,950 shares, respectively	(3,479)	(3,404)
Total stockholders' equity	$5,675	$5,450
Total liabilities and stockholders' equity	$11,595	$11,811

See accompanying Notes to the Condensed Consolidated Financial Statements

2

Table of Contents

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

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

See accompanying Notes to the Condensed Consolidated Financial Statements

Table of Contents

CA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(in millions)

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

See accompanying Notes to the Condensed Consolidated Financial Statements

4

Table of Contents

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

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

See accompanying Notes to the Condensed Consolidated Financial Statements

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

NOTE A – ACCOUNTING POLICIES
Basis of Presentation: The accompanying unaudited Condensed Consolidated Financial Statements of CA, Inc. (Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 270, for interim financial information and with the instructions to Rule 10-01 of Securities and Exchange Commission Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the Company's Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2013 (2013 Form 10-K). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal, recurring nature.
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, these estimates may ultimately differ from actual results.
Operating results for the three and six months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2014.
Cash and Cash Equivalents: The Company's cash and cash equivalents are held in numerous locations throughout the world, with approximately 59% being held by the Company's foreign subsidiaries outside the United States at September 30, 2013.
Investments: Short-term investments consisted of time deposits held by foreign subsidiaries that are denominated in currencies other than the U.S. dollar. These investments have maturities greater than three months, but less than one year.
Fair Value Measurements: Fair value is the price that would be received for an asset or the amount paid to transfer a liability in an orderly transaction between market participants. The Company is required to classify certain assets and liabilities based on the following fair value hierarchy:

- Level 1: Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2: Quoted prices for identical assets and liabilities in markets that are not active, or quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and
- Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

See Note I, "Fair Value Measurements," for additional information.
Deferred Revenue (Billed or Collected): The Company accounts for unearned revenue on billed amounts due from customers on a gross basis. Unearned revenue on billed installments (collected or uncollected) is reported as deferred revenue in the liability section of the Company's Condensed Consolidated Balance Sheets. Deferred revenue (billed or collected) excludes unbilled contractual commitments executed under license and maintenance agreements that will be billed in future periods. See Note F, "Deferred Revenue," for additional information.
Other Matters: As part of the Company's efforts to more fully utilize its intellectual property assets, in the first quarter of fiscal 2013, the Company closed a transaction that assigned the rights to certain of these assets to a large technology company for approximately $35 million. The entire contract amount is included in the "Other (gains) expenses, net" line of the Company's Condensed Consolidated Statement of Operations for the six months ended September 30, 2012. The Company will continue to have the ability to use these intellectual property assets in current and future product offerings.
New Accounting Pronouncements: In February 2013, the FASB issued Accounting Standards Update No. 2013-02, Comprehensive Income (Topic 220) —Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive

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

NOTE B – ACQUISITIONS

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

Table of Contents

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

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

(1) Includes customer relationships and trade names.
(2) Includes approximately $9 million of cash acquired.

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

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

NOTE C – SEVERANCE AND EXIT COSTS

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

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

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

(in millions)	Accrued Balance at March 31, 2012	Expense	Change in Estimate	Payments	Accretion and Other	Accrued Balance at September 30, 2012

Severance charges	$13	$—	$(3)	$(7)	$—	$3
Facility exit charges	40	—	—	(5)	(3)	32
Total accrued liabilities	$53					$35

Balances at September 30, 2013 and 2012 include severance accruals of approximately $7 million and $3 million, respectively, and facility exit accruals of approximately $15 million and $32 million, respectively, for plans and actions prior to fiscal year 2014.
The severance liability is included in “Accrued salaries, wages and commissions” in the Condensed Consolidated Balance Sheets. The facility exit liabilities are included in “Accrued expenses and other current liabilities” and “Other noncurrent liabilities” in the Condensed Consolidated Balance Sheets.
Accretion and other includes accretion of the Company’s lease obligations related to facility exits as well as changes in the assumptions related to future sublease income. These costs are included in “General and administrative” expense in the Condensed Consolidated Statements of Operations.

NOTE D – TRADE ACCOUNTS RECEIVABLE

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

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

NOTE E – GOODWILL, CAPITALIZED SOFTWARE AND OTHER INTANGIBLE ASSETS

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE G – DEBT
Senior Notes: In August 2013, the Company issued $250 million of 2.875% Senior Notes due August 2018 (2.875% Notes) and $250 million of 4.500% Senior Notes due August 2023 (4.500% Notes), for proceeds of approximately $498 million, reflecting a discount of approximately $2 million. The 2.875% Notes and 4.500% Notes are senior unsecured obligations that rank equally in right of payment with all of our existing and future unsecured and unsubordinated obligations and are redeemable by the Company at any time, subject to a “make-whole” premium of 25 basis points and 30 basis points for the 2.875% Notes and 4.500% Notes, respectively. Interest on the 2.875% Notes and 4.500% Notes is payable semiannually in August and February, beginning February 2014. The 2.875% Notes and 4.500% Notes contain customary covenants and events of default. The maturity of the 2.875% Notes and the 4.500% Notes may be accelerated by holders upon certain events of default, including failure to make payments when due and failure to comply with covenants.
The Company capitalized finance costs of approximately $4 million associated with the 2.875% Notes and 4.500% Notes and will amortize these costs to “Interest expense, net” in the Company's Consolidated Statements of Operations.
Revolving Credit Facility: In June 2013, the Company amended its revolving credit facility to extend the termination date to June 2018.
The maximum committed amount available under the revolving credit facility due June 2018 is $1 billion. The facility also provides the Company with an option to increase the available credit by an amount up to $500 million. This option is subject to certain conditions and the agreement of the facility lenders.
Advances under the revolving credit facility due June 2018 bear interest at a rate dependent on the Company's credit ratings at the time of those borrowings and are calculated according to a Base Rate or a Eurocurrency Rate, as the case may be, plus an applicable margin. The Company must also pay facility commitment fees quarterly on the full revolving credit commitment at rates dependent on the Company's credit ratings.
At September 30, 2013 and March 31, 2013, there were no outstanding borrowings under the revolving credit facility and, based on the Company's credit ratings, the rates applicable to the facility at September 30, 2013 and March 31, 2013 were as follows:

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

Facility commitment fee	0.125 %	0.150 %

10

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

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

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

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

NOTE H – DERIVATIVES

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

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

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

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

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

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

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

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

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

The Company is subject to collateral security arrangements with most of its major counterparties. These arrangements require the Company or the counterparty to post collateral when the derivative fair values exceed contractually established thresholds. The aggregate fair values of all derivative instruments under these collateralized arrangements were in a net asset position at September 30, 2013 and March 31, 2013. The Company posted no collateral at September 30, 2013 or March 31, 2013. Under these agreements, if the Company's credit ratings had been downgraded one rating level, the Company would still not have been required to post collateral.

NOTE I – FAIR VALUE MEASUREMENTS

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

	At September 30, 2013	At March 31, 2013
	Fair Value Measu	