Computer Associates International, Inc.

1997 Annual Report

TNG. The Next Generation

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Financial Highlights

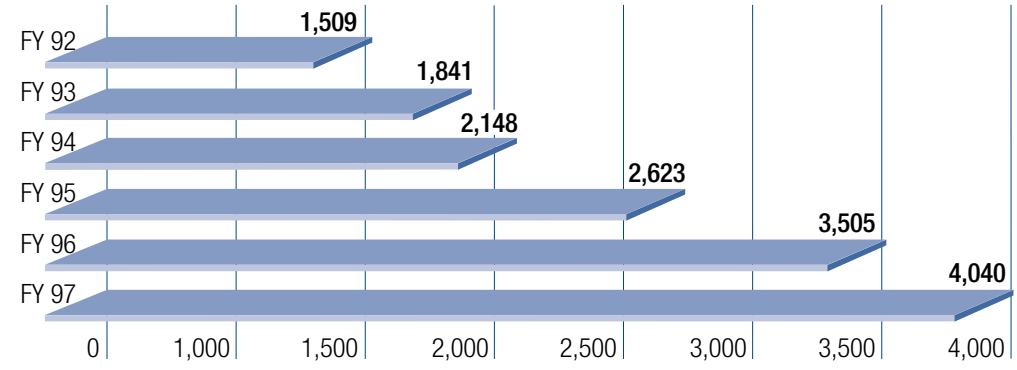
Comparative Achievements

The following reflects summary information for the fiscal years ended 1997 and 1996 excluding the effect of the charges for purchased research and development.

(In millions, except per share and per employee amounts)	1997	1996	% Increase
Total revenue	$4,040	$3,505	**15%**
Net income	964	752	**28%**
Net income per share	2.54	1.99	**28%**
Revenue per employee (In thousands)	437	414	**6%**
Net income per employee (In thousands)	104	89	**17%**
Cash from Operations	790	619	**28%**

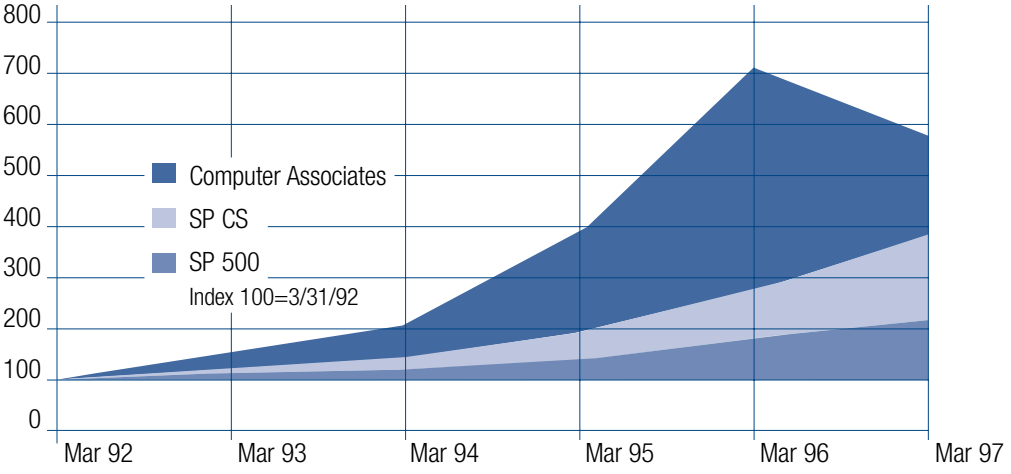
Revenue Growth

(In Millions)



Computer Associates' Total Stockholder Return

Versus S&P 500 and S&P Computer Software and Services Indices



COMPUTER ASSOCIATES®
Software superior by design.

Chairman's Letter

Dear Stockholder,

I always enjoy working on CA's annual report because it gives me a chance to talk about all the exciting progress over the past year. 1997, I'm pleased to report, was full of opportunity, and we made great strides on all fronts. Without a doubt, it was the year of the milestone!

We attribute our success to carrying out our plan to enhance our flagship product line, Unicenter® TNG (The Next Generation)™, and further extend innovative solutions like Jasmine™, CA's object-oriented database. These initiatives, along with acquisitions, alliances, and expanding our presence around the world, buttressed our strong position in the market, and on Wall Street.

For fiscal year 1997, CA's overall performance was again outstanding. Client/server revenue, for example, jumped 48%! This strong growth reflects an ongoing trend to standardize on our Unicenter family of products, in order to manage increasingly complex computing environments. Overall, revenue increased 15% from $3.5 billion in FY 1996 to $4.0 billion in FY 1997, setting a new all-time record high. Net income rose 28% from $752 million last year, while earnings per share came in at $1.99. (These figures exclude R&D charges associated with the acquisition of Legent Corporation in fiscal 1996, and Cheyenne Software in fiscal 1997.)

These strong numbers are due in part to Unicenter's popularity. Delivered to thousands of clients worldwide, Unicenter is once again head and shoulders above other network and systems management solutions. Garnering award after award from prestigious publications like *Computerworld*, *Information Week*, *Industry Week*, *UNIX Review*, and *CIO*, TNG also swept the competition in recent *Datamation* and *LAN Review* contests. Hands-down, industry experts and users agree, TNG is the recognized standard in enterprise management.

As the only true object-oriented database and multimedia development environment, Jasmine is outpacing competitive products on the market and those still in development. Jasmine, like TNG, has also received wide-spread support because of its unique combination of features. It's scalable. Distributed. Object-oriented. And, Jasmine lets developers build intuitive applications complete with real-world representations of complex activities and data. If you're planning to do business on the Web, or want a robust client/server application, Jasmine is your "short list."

The successful acquisition of Cheyenne further enhanced our product portfolio. As the *de facto* leader in storage management, security, and communications products, Cheyenne's network solution suite has visibly strengthened our presence in the desktop and LAN environments. Cheyenne products, along with our Unicenter family of enterprise management solutions, provide an unbeatable combination for solving the complex management challenges clients face today.

CA continues to pursue alliances with strategic powerhouses like DIGITAL, Tandem, VanStar and NCR. These partnerships not only present new sales channels, but also demonstrate CA's ongoing ability to provide value-added service and products to seasoned software and hardware vendors. The purpose of these alliances is to provide leading-edge enterprise management solutions using Unicenter as the foundation. A two-fold plan lets CA build business software products

for other companies, and/or acquire additional products (DIGITAL's POLYCENTER™) and services to sell in unison with Unicenter solutions. With a long list of potential Unicenter partnerships to pick and choose from, we expect our channel sales to climb to an all-time high.

Other groundbreaking developments this past year include OPAL™, a powerful new technology for integrating enterprise information. Using OPAL, companies can leverage existing information systems with new and emerging Internet and Intranet technologies. With this major breakthrough in managing information resources, IS managers are no longer tied to specific client platforms. OPAL's standalone and browser client applications easily integrate today's and tomorrow's information sources.

In the global arena, new frontiers, and a surge in demand for CA products and services inspired CA to complete the acquisition of our Japan subsidiary. This office, our Beijing and new Eastern European offices reinforce CA's presence in strategic emerging markets. These additional investments are expected to boost international sales and service capabilities.

Recapping these successes, it's clear that CA's ability to lead rather than follow keeps us in the vanguard of our technology peers. Achieving this takes a team of professionals over 10,000 strong. CA employees represent the best and brightest minds in the industry. And while success takes a collective effort, I think the adage, "there is no real progress except in the individual, and by the individual" epitomizes our company. In some way, each contributes his or her talent and resources to help make CA as successful as it is. Because of their work, over 95% of all Fortune 500 companies entrust their technology needs to us.

Inspired by a mutual commitment to excellence, CA employees are the cornerstone of our growth. As a testament to their collective and individual achievements, CA revenue now stands at an all-time record high. Even more impressive is the fact that for over 20 years, this commitment is embraced by every CA employee, and continues to be the driving force behind our monumental performance.

Very truly yours,

Charles B. Wang
Chairman and Chief Executive Officer

TNG. The Next Generation

On the morning of January 18, 1997, CA launched the most important new product in its 20-year history.

In front of a standing-room only crowd in New York City, while thousands watched on live satellite feeds in locations around the world, CA unveiled a major upgrade to its flagship product and the industry standard for network and systems management: Unicenter® TNG™.

TNG stands for "The Next Generation," and the name couldn't be more appropriate. Unicenter TNG truly is a generation ahead of the competition. With a revolutionary 3-D, virtual reality interface, and innovative Business Process Views™, which enable managers to look at the enterprise in an entirely new way, TNG looks and acts like nothing the industry has ever seen.

It is so different in fact, that some people don't believe it's real. Even after watching real-life demonstrations, many believe it's some kind of futuristic technology demo. To convince the skeptics, we've had to use the phrase "Shipping Today" in large type in all of our ads and collateral material.

As you can see, Unicenter TNG is having no trouble living up to its bold name. But, The Next Generation is much more than just a clever name for a breakthrough product.

It's our culture. At CA, we're focused on "The Next Generation" in virtually everything we do. Our products. Our services. Even our people.

We're always looking towards the future, anticipating what our clients will need, and working hard to get there first.

The Next Generation Computing Environment.

Today, and for the foreseeable future, the world's governments and enterprises are largely dependent on their distributed computing environments. Whether they are leading-edge organizations exploiting the Internet revolution, or smaller businesses using traditional computing to gain a competitive advantage, they depend on CA for their "infrastructure." The infrastructure is the technological foundation of their computing environment. CA's core competency is designing, building, and delivering the "best-of-breed" tools to develop, deploy, and manage this infrastructure.

Development. CA provides the tools used by the world's software developers to build the next generation in applications. From multimedia kiosks to electronic commerce Internet Web sites, CA tools and databases are the building blocks of state-of-the-art applications.

Deployment. Once applications are built, the next stage in their life is the controlled deployment throughout the network. This requires the rigorous use of networking and management technologies, not only to ensure the accurate delivery of the applications, but also to coordinate their interaction with a massive quantity of associated data.

Management. The life of software applications really only begins once they are deployed. This is when the "payback" begins. This is also when the most significant challenges begin for the organizations, which depend on applications for their business. CA has delivered the tools that manage networks, systems, databases, and applications, and have been CA's focus for over 20 years.

How CA Develops Next Generation Software Solutions.

It's extremely difficult to continuously develop and enhance a single software product and keep it at the leading edge of technology.

At CA, we do it for almost 500 products. This year we spent more than $300 million on R&D to enhance and upgrade our products. But, it takes more than just money to accomplish this incredibly ambitious goal. It takes the right strategy. Over the past 20 years, we have developed a four-pronged approach that enables us to get software technology breakthroughs to market quicker than anyone else.

- We develop software products using our industry-leading research and development organization.
- We acquire software companies and products using our sound and proven acquisition model.
- We integrate the technologies we've developed with the technologies we've acquired.
- We work with our partners to deliver customized best-of-breed solutions, which are tuned for each of our partner's products.

While some of our competitors may employ one or two of these approaches, we are the only company that has integrated all four into a very effective and successful product development strategy. It helps us integrate new technology faster, develop more powerful, comprehensive and robust solutions, and gives our clients superior solutions in a fraction of the time it used to take.

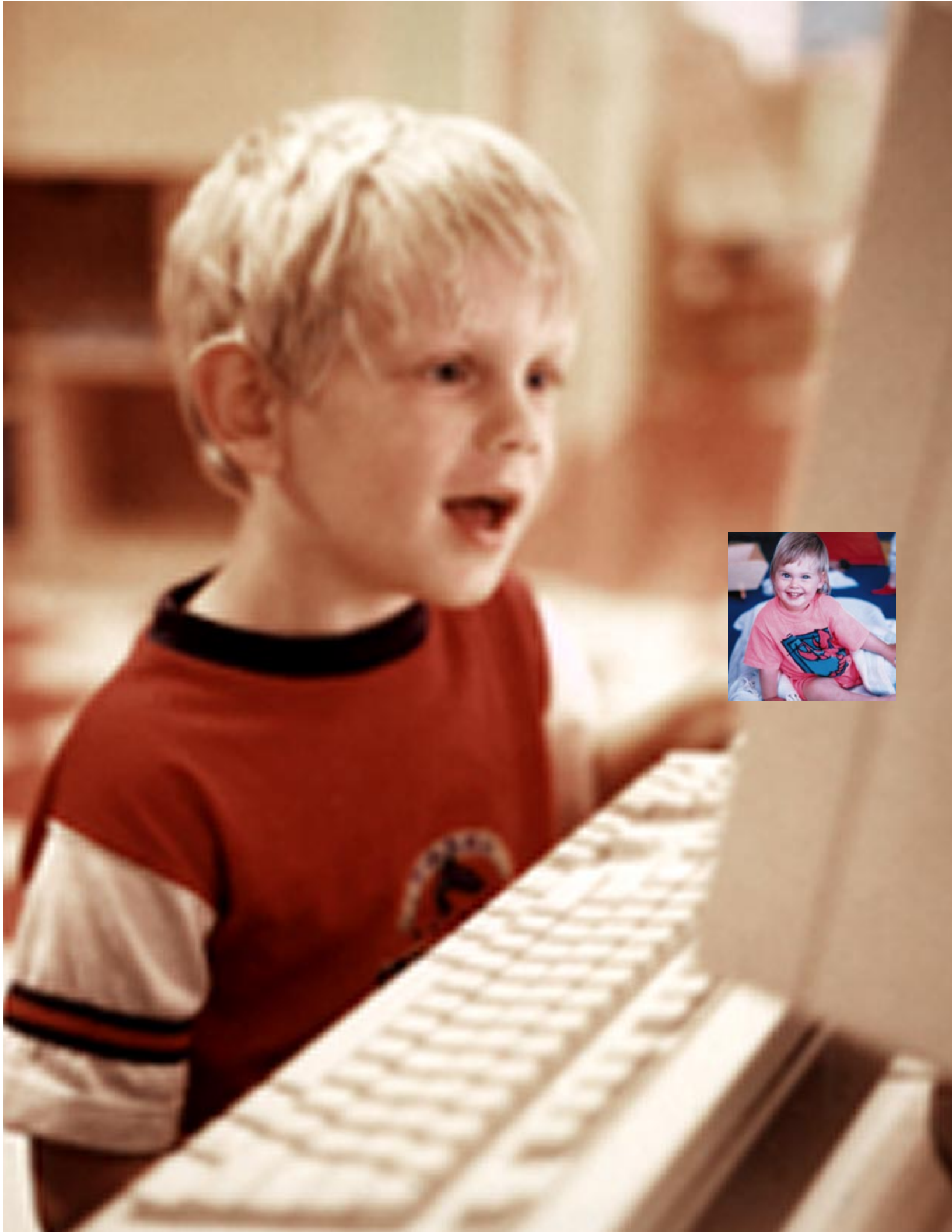
What Defines Next Generation Software Today.

The unique attributes of CA's software solutions are our heterogeneous capabilities, mission-critical products and support, and the openness and interoperability of our solutions.

Heterogeneous. Enterprises around the world use many different computing platforms. Most technology vendors' vision is limited to a small number of those platforms. CA, as a leading independent software company, has grown by delivering software solutions on all major vendors' computers and operating systems. By making this commitment, we can provide our clients the assurance that whatever environment they choose, CA can be their software provider.

Mission-Critical Products And Support. No other software company provides as many mission-critical products with as high a level of support as CA. CA products are built with the assumption that each client depends on that product to run their business. Therefore, if a CA client requests support at 3:00 a.m. in Singapore, a CA technical support person is there. Twenty-four hours a day, seven days a week, CA supports its products worldwide. This level of support gives our clients the comfort that they will never be left in the dark by CA.

Openness And Interoperability. No technology company can stand alone. This multivendor world requires software products to interoperate with other software and hardware solutions. This can only be accomplished by adherence to standards and by a never-ending commitment to openness. As a proponent of open standards in the areas of database management, network management, application management, object orientation, and component-based development, CA continues to drive the very processes necessary to deliver interoperable solutions.



At CA, The Next Generation Is Shipping Today.

The technology industry is infamous for showing tomorrow's products, yet selling today's.

But at CA we deliver solutions that not only meet today's needs, but are also built to grow to meet tomorrow's challenges. Leading-edge technologies like virtual-reality interfaces, object-oriented databases and end-to-end management tools are available now from CA.

We're able to deliver this leading-edge technology faster, because of our single-minded focus on "The Next Generation" and our obsession with getting there first.

TNG is part of everything we do at CA. It's the engine that drives us towards the future and helps us deliver software solutions for our clients just when they need them the most.

Today.

How The Next Generation Software Is Helping The Next Generation.

While we're known as the world's leading business software company, there's another side to us that you may not know.

Every year we dedicate a substantial amount of resources to help hundreds of non-business, non-profit organizations. While we never charge for this work or the services and products we provide, the dividends far outweigh the expenses. Using software to help change someone's life or make the world a little bit better place, is perhaps our favorite technology demo.

For years our software has helped people find missing data, today it is helping find missing children. As a technology sponsor for the National Center for Missing and Exploited Children, we've developed an Internet Web site that plays a critical role in finding missing and exploited children. Our technology enables the Center to post information and pictures of missing children on the World Wide Web in a fraction of the time it used to take.

The Make-A-Wish Foundation® has been helping make dreams come true for terminally ill children for years. CA is a corporate sponsor that helps Make-A-Wish raise money nationwide through various fund-raising events and CA employee contributions. For this and any other charity or non-profit organization, CA matches employee donations two for one.

Operation Smile is a volunteer medical non-profit organization that helps children born with cleft lips and palates both in the United States and around the world. Since 1982, Operation Smile has provided free reconstructive surgery to more than 40,000 indigent children. In addition to providing monetary support, CA is working with Operation Smile to develop a global network that will connect its thousands of volunteers around the world.

These are just a few of the hundreds of non-profit organizations around the world that CA is helping with both innovative Next Generation software solutions and financial support.

Executive Officers

Charles B. Wang
Chairman and Chief Executive Officer

Sanjay Kumar
President and Chief Operating Officer

Russell M. Artzt
Executive Vice President
Research and Development

Peter A. Schwartz
Senior Vice President and Chief Financial Officer

Board of Directors

Russell M. Artzt

Executive Vice President

Research and Development

Computer Associates International, Inc.

Willem F. P. De Vogel

President

Three Cities Research, Inc.

Irving Goldstein

Director General and Chief Executive Officer

INTELSAT

Richard A. Grasso

Chairman and Chief Executive Officer

New York Stock Exchange

Shirley Strum Kenny

President

State University of New York at Stony Brook

Sanjay Kumar

President and Chief Operating Officer

Computer Associates International, Inc.

Charles B. Wang

Chairman and Chief Executive Officer

Computer Associates International, Inc.

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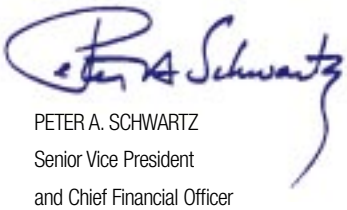
Report of Management

Management is responsible for the preparation, integrity and objectivity of the financial information presented in this Annual Report. The accompanying consolidated financial statements have been prepared from accounting records which management believes fairly and accurately reflect the operations and financial positions of the Company. These statements have been prepared in accordance with generally accepted accounting principles and of necessity include some amounts that are based on management's best estimates and judgments. Management has established a system of internal controls to provide reasonable assurance that assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately on the Company's books and records.

The Company's Internal Audit Program provides for ongoing evaluation of the adequacy, effectiveness and adherence to management's established policies and procedures. The Board of Directors exercises its responsibility for these financial statements through its Audit Committee, which consists entirely of non-management Directors. The independent auditors and the internal auditors have full and free access to the Audit Committee. The Company has distributed to key employees its policies for conducting business affairs in an ethical and professional manner.

The financial statements of the Company have been audited by Ernst & Young LLP, independent auditors. Their accompanying report is based on an audit conducted in accordance with generally accepted auditing standards, including a review of internal accounting controls and financial reporting matters.

CHARLES B. WANG
Chairman of the Board
and Chief Executive Officer



PETER A. SCHWARTZ
Senior Vice President
and Chief Financial Officer

Islandia, New York
May 23, 1997

Report of Independent Auditors

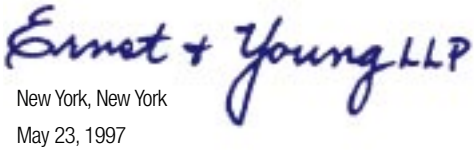
Stockholders and Board Of Directors
Computer Associates International, Inc.

We have audited the accompanying consolidated balance sheets of Computer Associates International, Inc. and subsidiaries as of March 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Computer Associates International, Inc. and subsidiaries at March 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 1997, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in fiscal year 1997, the Company changed its method of accounting for deferred income taxes relating to in-process research and development acquired in purchase business combinations.



New York, New York
May 23, 1997

Management's Discussion and Analysis

Results of Operations

This Annual Report contains certain forward-looking statements and information relating to the Company that are based on the beliefs and assumptions made by the Company's management as well as information currently available to management. When used in this document, the words "anticipate," "believe," "estimate," and "expect" and similar expressions, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. The Company does not intend to update these forward-looking statements.

Fiscal Year 1997

Total revenue for fiscal year 1997 was $4.0 billion, an increase of 15% over the $3.5 billion recorded in fiscal year 1996. This increase reflects the expanded demand for the Company's products, particularly its Unicenter® family. The Cheyenne division's desktop and local area network products acquired in November 1996 contributed marginally to the increase. Revenue in North America increased 40% for fiscal year 1997 due to strong acceptance of the Company's client/server software solutions and the ongoing increases in client computing capacity needs (as measured in MIPS). International revenue decreased 9% in fiscal year 1997 compared with fiscal year 1996. This was caused by a combination of operational difficulties in refocusing the European sales and marketing resources from mainframe to client/server sales opportunities, exacerbated by economic conditions including a weakening of the local currencies against the U.S. Dollar. Maintenance revenue increased 2%, or $11 million in fiscal year 1997. This increase is due in part to the addition of a full year of Legent maintenance revenue, partially offset by the ongoing trend of site consolidations, and escalating client/server revenue which generate lower maintenance revenue. Foreign exchange rate movements negatively affected total revenue in fiscal year 1997 by approximately $43 million or slightly more than 1%. Price changes did not have a material impact in either year.

Selling, marketing and administrative expenses for fiscal year 1997 decreased to 36% of revenue from 39% in fiscal year 1996. This reduction is a function of the continued corporate-wide effort to reduce fixed and administrative costs as well as operating efficiencies realized from integration of the Cheyenne and Legent acquisitions. In fiscal year 1997, new product research and development expenditures increased $33 million, or 12%. The continued emphasis on adapting products for client/server environments and the addition of Cheyenne development personnel were largely responsible for this increase. Commissions and royalties were approximately 5% of total revenue for both fiscal year 1997 and 1996. Depreciation and amortization expense increased $20 million, or 5% in fiscal year 1997 over fiscal year 1996. This rise is largely the result of an additional $31 million associated with the Cheyenne acquisition partially offset by decreased amortization from previous acquisitions. For fiscal year 1997 net interest expense was $102 million, an increase of $31 million over fiscal year 1996. The increase is attributable to the higher debt levels associated with borrowings used to finance the Cheyenne acquisition.

The charge of $598 million in fiscal year 1997 is a write-off of purchased research and development technology that had not reached the working model stage and has no alternative future use. Fiscal year 1997 had a pre-tax profit of $932 million compared to the pre-tax loss of $100 million in fiscal year 1996. The pre-tax amounts for both fiscal years 1997 and 1996 include research and development charges relating to the acquisitions of Cheyenne and Legent of $598 million and $1,303 million, respectively. Excluding these charges, pre-tax income for fiscal year 1997 was $1,530 million compared to $1,203 million in fiscal year 1996, an increase of $327 million, or 27%. The Company has changed its accounting in fiscal year 1997 for deferred taxes on purchased research and development. See Note 1 to Notes to Consolidated Financial Statements. The consolidated effective tax rate, excluding the research and development charges for fiscal year 1997 was 37% versus 37.5% in fiscal year 1996. Including the aforementioned purchased research and development charge, net income for fiscal year 1997 was $366 million compared to a net loss of $56 million for fiscal year 1996.

Without these charges in fiscal years 1997 and 1996, net income was $964 million, or $2.54 per share, and $752, or $1.99 per share, respectively.

Fiscal Year 1996

Total revenue for fiscal year 1996 of $3.5 billion increased 34% over the $2.6 billion recorded in fiscal year 1995. The increase reflects continued demand for less restrictive enterprise licensing pricing options, as well as the continued growth of licensing fees for the Company's client/server products. In addition, the inclusion of Legent mainframe and client/server products acquired in August 1995 contributed to revenue growth. International revenue increased 34% during fiscal year 1996. Relatively stable economic conditions and continued expansion of foreign markets, especially relating to Legent products were largely responsible for this growth. Maintenance revenue was essentially unchanged; increasing 1% or $10 million primarily due to the acquisition of the Legent client base, partially offset by the ongoing trend of site consolidations as well as expanding client/server revenue which yield lower maintenance. Foreign exchange rate movements, had a positive impact on revenue comparisons with fiscal year 1995 of approximately 1%. Price changes did not have a material impact in either year.

Selling, marketing and administrative expenses for fiscal year 1996 decreased to 39% of revenue from 40% in fiscal year 1995. This percentage reduction reflects higher revenue achievement without a proportionate increase in total fixed and administrative costs as well as operating efficiencies realized from the acquisitions of Legent and ASK. Net research and development expenditures increased $53 million, or 23%, for fiscal year 1996 over the prior fiscal period. The addition of Legent product and development personnel, the expanded emphasis on adapting products for the client/server environment and introduction of Internet/Intranet products were largely responsible for this increase. Commissions and royalties approximated 5% of revenue for both fiscal year 1996 and 1995. Depreciation and amortization expense increased 57%, or $147 million in fiscal year 1996 over fiscal year 1995, primarily as a result of additional and accelerated purchased software amortization associated with the Legent acquisition.

Approximately $150 million of additional amortization expense during fiscal 1996 was directly attributable to the Legent acquisition. Net interest expense for fiscal year 1996 was $71 million, an increase of approximately $63 million over fiscal year 1995, reflecting the higher debt levels associated with borrowings used to finance the Legent acquisition.

A pre-tax purchased research and development charge of $1,303 million is included in fiscal year 1996 total expenses. A pre-tax charge of $249 million for purchased research and development relating to the ASK acquisition is included in fiscal year 1995 total expenses. The charge represents a write-off of purchased research and development technology that had not reached the working model stage and had no alternative future use. Fiscal year 1996 had a pre-tax loss of $100 million compared to the $697 million pre-tax income in fiscal year 1995. The pre-tax amounts for both fiscal years 1996 and 1995 include charges relative to the acquisitions of Legent and ASK, respectively. Excluding the fiscal year 1996 Legent charge of $1,303 million and fiscal year 1995 ASK charge of $249 million, pre-tax income for fiscal year 1996 was $1,203 million compared to $946 million in fiscal year 1995, an increase of $257 million, or 27%. The consolidated effective tax rate for fiscal year 1996 reflects a tax benefit of 44%. Without the effect of the Legent charge, the consolidated effective tax rate would have been 37.5% in fiscal 1996 versus 38% in fiscal 1995. Fiscal year 1996 had a net loss of $56 million, including the previously mentioned charge. Excluding the aforementioned charges in fiscal 1996 and 1995, net income was $752 million compared to $586 million in fiscal year 1995. This $166 million increase over fiscal year 1995 was a 28% improvement. Net income per share excluding both charges was $1.99 in 1996 compared to $1.55 for 1995, also an increase of 28%.

The Company's foreign subsidiaries operate as distributors for the products of the Company. As such, the subsidiaries pay royalties to the Company on revenue generated from the licensing of products. After payment of such royalties, these foreign subsidiaries had net income of $265 million, $225 million, and $155 million, in fiscal years 1997, 1996, and 1995, respectively. See Note 4 of Notes to Consolidated Financial Statements.

The Company's products are designed to improve the productivity and efficiency of its clients' data processing resources. Accordingly, in a recessionary environment, the Company's products are often a reasonable economic alternative to customers faced with the prospect of incurring expenditures to increase their existing data processing resources. However, a general or global slowdown in the world economy could adversely affect the Company's operations.

The Company has historically reported lower profit margins for the first two quarters of each fiscal year than those experienced in the third and fourth quarters. As part of the annual budget process, management establishes higher discretionary expense levels in relation to revenue for the first half of the year. Historically, the Company's combined third and fourth quarter revenue have been greater than the first half of the year, as these two quarters coincide with clients' calendar year budget periods and the culmination of the Company's annual sales plan. These historically higher second half revenue have resulted in significantly higher profit margins since total expenses have not increased in proportion to revenue. However, past financial performance should not be considered to be a reliable indicator of future performance.

The Company's future operating results may be affected by a number of factors, including, but not limited to: uncertainties relative to global economic conditions; market acceptance of competing technologies; the availability and cost of new solutions; its ability to successfully maintain or increase market share in core businesses while expanding its product base into other markets; the strength of its distribution channels; its ability to effectively manage fixed and variable expense growth relative to revenue growth; and its ability to effectively integrate acquired products and operations.

There have been no special marketing programs by the Company which have had a material effect on the revenue or net income of any given quarterly period.

Foreign Currency Exchange

Uncertainty in world economies and the expectations for higher U.S. interest rates caused a gradual strengthening of the U.S. Dollar during fiscal year 1997. Approximately 40% of the Company's total revenue in fiscal year 1997, 50% in fiscal year 1996 and 49% in fiscal year 1995, was derived from sales outside of North America. The net income effect of foreign currency exchange rate fluctuations versus the U.S. Dollar on international revenue is largely offset to the extent expenses of the Company's international operations are incurred and paid for in the same currencies as those of its revenue. During fiscal 1997, the net income effect of foreign exchange losses was approximately $7 million. A foreign currency translation adjustment of $74 million was charged to Stockholders' Equity in fiscal year 1997. As part of its risk management strategy, the Company did not enter into any foreign exchange derivative transactions during fiscal years 1997 and 1996.

Selected Unaudited Quarterly Information

(in millions, except per share amounts)

1997 Quarterly Results	June 30	Sept. 30	Dec. 31[1]	Mar. 31	Total[1]
Revenue	$792	$ 990	$1,053	$1,205	$4,040
Percent of total revenue	20%	24%	26%	30%	100%
Net income (loss)	120	223	(313)	336	366
– Per common share [3]	$ .32	$ .59	$ (.86)	$ .90	$ .97

1996 Quarterly Results	June 30	Sept. 30[2]	Dec. 31	Mar. 31	Total[1]
Revenue	$578	$ 812	$1,004	$1,111	$3,505
Percent of total revenue	16%	23%	29%	32%	100%
Net income (loss)	89	(637)	227	265	(56)
– Per common share [3]	$ .23	$(1.76)	$ .60	$ .70	$ (.16)

(1) Includes an after-tax write-off of $598 million related to the acquisition of Cheyenne Software, Inc. in November 1996. See Note 2 of Notes to Consolidated Financial Statements for additional information.

(2) Includes an after-tax write-off of $808 million related to the acquisition of Legent Corporation in August 1995. See Note 2 of Notes to Consolidated Financial Statements for additional information.

(3) Adjusted to reflect three-for-two stock splits effective August 21, 1995 and June 19, 1996.

Liquidity and Capital Resources

In April 1996, the Company restructured a portion of its debt by completing a $320 million private placement of debt. The private placement offered the Company to lock in favorable interest rates while extending the maturity of its debt.

In July 1996, the Company restructured its $2 billion 5-year reducing revolving credit facility into a $700 million 364-day revolving credit agreement and a $1.3 billion 5-year revolving credit agreement. Under both credit agreements, borrowings are subject to interest primarily at the prevailing London Interbank Rate ("LIBOR") plus a fixed spread dependent on the achievement of certain financial ratios. The agreements call for a facility fee and are also dependent on the achievement of certain financial ratios. The Company must also maintain certain financial conditions under the agreements. Additionally, the Company has $24 million of unsecured and uncommitted multicurrency lines of credit available. These multicurrency facilities were established to meet any short-term working capital requirements for subsidiaries principally outside the United States. Peak borrowing under these financing arrangements were $1,850 million during fiscal 1997, and the weighted average interest rate for these borrowings was 5.8%. Peak borrowing under credit facilities during fiscal 1996 were $1,845 million and the weighted average interest rate for those borrowings was 6.5%. At March 31, 1997, approximately $1,845 million was outstanding under these credit arrangements.

Cash from operations for the year ended March 31, 1997 increased by $171 million, or 28%, over the prior fiscal year. The increase was primarily due to higher net income. Accounts receivable balances increased during fiscal 1997, as the Company continues to use installment payment plans as a competitive advantage during the sales process. Clients show an increased willingness to finance their licensing fees. The Company has chosen to maintain its own financing plans instead of using third parties, such as banks or financial institutions, to arrange client financing. Cash generated from operations and the proceeds from the sale of marketable securities were used, in part, to purchase over $300 million of treasury stock during the fiscal year. The balance of the cash generated from operations was used to partially repay debt drawn to fund the Company's November 1996 $1.2 billion purchase of Cheyenne.

The Company's capital resource commitment as of March 31, 1997, consisted of lease obligations for office facilities, computer equipment, a mortgage obligation, and amounts due from the acquisition of products and companies. In addition, the Company is proceeding with a project to purchase land and a building for approximately $150 million in the United Kingdom. The Company intends to meet its existing and planned commitments from its available funds and credit facilities. See Notes 6 and 7 of Notes to Consolidated Financial Statements for details concerning commitments.

The Company believes that the foregoing sources of liquidity, plus existing cash and marketable securities of $199 million as of March 31, 1997, are adequate for its foreseeable needs.

During fiscal 1997, the Company announced that it increased the authorized amount of shares to be repurchased by 18.8 million bringing the total authorized under the Company's various repurchase programs to 108.8 million shares. Approximately 7 million shares were repurchased during fiscal 1997, bringing the total repurchased under the various plans to 78 million. Approximately 30 million shares remain authorized for repurchase. All references to share amounts have been adjusted for three-for-two stock splits effective August 21, 1995 and June 19, 1996.

Consolidated Balance Sheets

ASSETS	March 31, 1997	1996
	(Dollars in millions)	
Current Assets		
Cash and cash equivalents	$ 143	$ 97
Marketable securities	56	105
Trade and installment accounts receivable	1,514	1,182
Other current assets	67	64
Total Current Assets	1,780	1,448
Installment Accounts Receivable, due after one year	2,200	1,701
Property and Equipment		
Land and buildings	349	317
Equipment, furniture and improvements	438	403
	787	720
Allowance for depreciation and amortization	349	300
Total Property and Equipment	438	420
Purchased Software Products, net of accumulated amortization of $1,079 and $786	440	580
Excess of Cost Over Net Assets Acquired, net of accumulated amortization of $139 and $84	1,159	786
Other Assets	67	81
Total Assets	$ 6,084	$ 5,016

See Notes to Consolidated Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 1997	1996
	(Dollars in millions)	
Current Liabilities		
Loans payable and current portion of long-term debt	$ 548	$ 499
Accounts payable	124	101
Salaries, wages and commissions	140	119
Accrued expenses and other liabilities	324	340
Taxes, other than income taxes	66	66
Federal, state and foreign income taxes payable	265	229
Deferred income taxes	260	147
Total Current Liabilities	1,727	1,501
Long-Term Debt, net of current portion	1,663	945
Deferred Income Taxes	853	721
Deferred Maintenance Revenue	338	367
Stockholders' Equity		
Common Stock, $.10 par value, 1,100,000,000 shares authorized, 420,614,834 shares issued*	42	42
Additional paid-in capital	518	503
Retained earnings	1,757	1,426
Equity adjustment	(27)	41
Treasury stock, at cost—58,645,259 shares for 1997 and 57,305,279 shares for 1996*	(787)	(530)
Total Stockholders' Equity	1,503	1,482
Total Liabilities and Stockholders' Equity	$6,084	$5,016

*Share amounts adjusted for three-for-two stock splits effective August 21, 1995 and June 19, 1996.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Operations

	Year Ended March 31,		
	1997	**1996**	**1995**
		(In millions, except per share amounts)	
Product revenue and other related income	**$3,300**	$2,776	$1,903
Maintenance fees	**740**	729	720
Total Revenue	**4,040**	3,505	2,623
Costs and Expenses:			
Selling, marketing and administrative	**1,465**	1,368	1,051
Product development and enhancements	**318**	285	233
Commissions and royalties	**201**	174	127
Depreciation and amortization	**424**	404	258
Interest expense, net	**102**	71	8
Purchased research and development	**598**	1,303	249
Total Costs and Expenses	**3,108**	3,605	1,926
Income (loss) before income taxes	**932**	(100)	697
Income taxes (benefit)	**566**	(44)	265
Net Income (Loss)	**$ 366**	$ (56)	$ 432
Net Income (Loss) Per Common Share	**$ .97**	$ (.16)	$ 1.14
Weighted average common shares used in computation	**379***	362*	378*

*Share amounts adjusted for three-for-two stock splits effective August 21, 1995 and June 19, 1996.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

	Common Stock[2]	Additional Paid-In Capital[2]	Retained Earnings	Equity Adjustment	Treasury Stock	Total Stockholders' Equity
				(Dollars in millions)		
Balance at March 31, 1994	$ 42	$495	$1,116	$ (16)	$(394)	$1,243
Net income			432			432
Dividends declared ($.089 per share)[2]			(32)			(32)
Exercise of Common Stock options and other		(1)			23	22
401(k) discretionary contribution		6			7	13
Translation adjustment in 1995				76		76
Net change attributable to unrealized loss on marketable securities				(3)		(3)
Purchases of treasury stock					(173)	(173)
Balance at March 31, 1995	42	500	1,516	57	(537)	1,578
Net loss			(56)			(56)
Dividends declared ($.091 per share)[2]			(34)			(34)
Exercise of Common Stock options and other		(7)		7	32	32
401(k) discretionary contribution		10			5	15
Translation adjustment in 1996				(25)		(25)
Net change attributable to unrealized gain on marketable securities				2		2
Purchases of treasury stock					(30)	(30)
Balance at March 31, 1996	42	503	1,426	41	(530)	1,482
Net income			366			366
Dividends declared ($.097 per share)[2]			(35)			(35)
Exercise of Common Stock options and other		2		7	57	66
401(k) discretionary contribution		13			3	16
Translation adjustment in 1997				(74)		(74)
Net change attributable to unrealized loss on marketable securities				(1)		(1)
Purchases of treasury stock					(317)	(317)
Balance at March 31, 1997	$ 42	$518	$1,757	$ (27)[1]	$(787)	$1,503

(1) Represents foreign currency translation adjustment of $(40) million and $13 million of restricted stock.
(2) Amounts adjusted for three-for-two stock splits effective August 21, 1995 and June 19, 1996.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Operating Activities:	Year Ended March 31, 1997	1996	1995
		(Dollars in millions)	
Net income (loss)	$ 366	$ (56)	$ 432
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	424	404	258
Provision for deferred income taxes (benefit)	221	(290)	42
Charge for purchased research and development	598	1,303	249
Increase in noncurrent installment accounts receivable, net	(575)	(590)	(357)
(Decrease) increase in deferred maintenance revenue	(23)	37	(5)
Foreign currency transaction loss (gain)—before taxes	11	(2)	1
Changes in other operating assets and liabilities, net of effects of acquisitions:			
Increase in trade and installment receivables	(341)	(262)	(59)
Other changes in operating assets and liabilities	109	75	(72)
Net Cash Provided by Operating Activities	790	619	489
Investing Activities:			
Acquisitions, primarily purchased software, marketing rights and intangibles	(1,191)	(1,787)	(430)
Purchases of property and equipment	(53)	(21)	(35)
Purchases of marketable securities	(51)	(54)	(146)
Sales of marketable securities	99	136	194
Increase in capitalized development costs and other	(18)	(16)	(16)
Net Cash Used in Investing Activities	(1,214)	(1,742)	(433)
Financing Activities:			
Dividends	(35)	(34)	(32)
Purchases of treasury stock	(317)	(30)	(173)
Proceeds from borrowings	1,480	1,720	522
Repayments of borrowings	(710)	(570)	(417)
Exercise of common stock options and other	53	22	15
Net Cash Provided by (Used in) Financing Activities	471	1,108	(85)
Increase (Decrease) in Cash and Cash Equivalents Before Effect of Exchange Rate Changes on Cash	47	(15)	(29)
Effect of exchange rate changes on cash	(1)	(5)	13
Increase (Decrease) In Cash and Cash Equivalents	46	(20)	(16)
Cash and Cash Equivalents—Beginning of Year	97	117	133
Cash and Cash Equivalents—End of Year	$ 143	$ 97	$ 117

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1 — Significant Accounting Policies

Description of Business: Computer Associates International, Inc. and subsidiaries (the "Company") designs, develops, markets and supports a wide range of integrated computer software products.

Principles of Consolidation: Significant intercompany items and transactions have been eliminated in consolidation. The Company has various investments which it accounts for under the equity method of accounting. These investments are not significant either individually or when considered collectively. The Company's net gain or loss for such investments is reflected in selling, marketing and administrative expense.

Basis of Revenue Recognition: Product license fee revenue is recognized after both acceptance by the client and delivery of the product. Maintenance revenue, whether bundled with product license or priced separately, is recognized ratably over the maintenance period. Accounts receivable resulting from product sales with extended payment terms are discounted to present value using the rate which approximates the Company's cost of funds. The amounts of the discount credited to operations for the years ended March 31, 1997, 1996, and 1995 were $271 million, $215 million, and $161 million, respectively.

Marketable Securities: The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The Company has evaluated its investment policies consistent with Financial Accounting Standards Board Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities ("FASB 115"), and determined that all of its investment securities are to be classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in Stockholders' Equity under the caption Equity Adjustment. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in interest income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

Property and Equipment: Land, buildings, equipment, furniture, and improvements are stated at cost. Depreciation and amortization are provided over the estimated useful lives of the assets by the straight-line method. Building and improvements are generally estimated to have 30-40 year lives and the remaining property and equipment are estimated to have 5-7 year lives.

Intangibles: Excess of costs over net assets acquired is being amortized by the straight-line method over 20 years. Cost of purchased software and acquired rights to market software products, and software development costs (costs incurred after development of a working model or a detailed program design) are capitalized and amortized by the straight-line method over five years or based on the product's useful economic life, commencing with product release. Unamortized capitalized development costs included in other assets at March 31, 1997 and 1996 were $54 million and $53 million, respectively. Amortization of capitalized development costs was $17 million, $19 million, and $22 million for the fiscal years ended March 31, 1997, 1996, and 1995, respectively.

Net Income per Share: Net income per share of Common Stock is computed by dividing net income by the weighted average number of common shares and any dilutive common share equivalents outstanding. Fully diluted net income per share for fiscal 1997, 1996, and 1995 is not materially different from net income per share. The number of common shares used for computing net loss per common share in fiscal 1996 does not include any common share equivalents because the effect would have been antidilutive.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earning per Share," which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock plans will be excluded. The impact is expected to result in an increase in primary earnings for the year ended March 31, 1997 of $ .04 per share. The impact of Statement 128 in the calculation of fully diluted earnings per share is not expected to be material.

Share and per share amounts have been adjusted to reflect three-for-two stock splits effective August 21, 1995 and June 19, 1996.

Statement of Cash Flows: Interest payments for the years ended March 31, 1997, 1996, and 1995 were $89 million, $76 million, and $23 million, respectively. Income taxes paid for these fiscal years were $300 million, $144 million, and $227 million, respectively.

Translation of Foreign Currencies: In translating financial statements of foreign subsidiaries, all assets and liabilities are translated using the exchange rate in effect at the balance sheet date. All revenue, costs and expenses are translated using an average exchange rate. Net income (loss) includes exchange (losses) gains of approximately $(7) million in 1997, $1 million in 1996, and $(1) million in 1995.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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, they may ultimately differ from actual results.

New Accounting Pronouncements: During fiscal 1997, the Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards (FAS) No. 123, "Accounting for Stock-Based Compensation." In accordance with the provisions of FAS No. 123, the Company applies APB 25 and related interpretations in accounting for its stock based plans.

Emerging Issues Task Force No. 96-7, "Accounting for Deferred Taxes on In-Process Research and Development Activities Acquired in a Purchase Business Combination," became effective on May 23, 1996. As provided therein, deferred taxes will no longer be provided on the initial differences between the amounts assigned to in-process research and development costs acquired in a business purchase combination for financial reporting and tax purposes, and in-process research and development will be charged to expense on a gross basis at acquisition. The effect of this change was to decrease net income by $221 million, or $.58 per share, in fiscal year 1997 as a result of not providing a deferred tax benefit.

Note 2 — Acquisitions

On November 11, 1996, the Company acquired 98% of the issued and outstanding shares of Common Stock of Cheyenne Software, Inc. ("Cheyenne"), and on December 2, 1996 merged into Cheyenne one of its wholly owned subsidiaries. The aggregate purchase price of approximately $1.2 billion was funded from drawings under the Company's $2 billion credit agreements. Cheyenne was engaged in the design, development, marketing, and support of storage, management, security and communications software for desktops and distributed enterprise networks. The acquisition was accounted for as a purchase. The results of Cheyenne's operations have been combined with those of the Company since the date of acquisition.

The Company recorded a $598 million after-tax charge against earnings for the write-off of purchased Cheyenne research and development technology that had not reached the working model stage and has no alternative future use. Research and development charges are generally based upon a discounted cash flow analysis. Had this charge not been taken during the quarter ended December 31, 1996, net income and net income per share for the year ended March 31, 1997 would have been $964 million, or $2.54 per share.

On August 1, 1995, the Company acquired 98% of the issued and outstanding shares of common stock of Legent Corporation ("Legent"), and on November 6, 1995 merged into Legent one of its wholly owned subsidiaries. The aggregate purchase price of approximately $1.8 billion was funded from drawings under the Company's $2 billion credit agreement dated as of July 24, 1995. Legent was engaged in the design, development, marketing, and support of a broad range of computer software products for the management of information systems used to manage mainframe, midrange, server, workstation and PC systems deployed throughout a business enterprise. The acquisition was accounted for as a purchase. The results of Legent's operations have been combined with those of the Company since the date of acquisition.

The Company recorded an $808 million after-tax charge against earnings for the write-off of purchased Legent research and development technology that had not reached the working model stage and has no alternative future use. Had this charge not been taken, net income for the fiscal year ended March 31, 1996 would have been $752 million, or $1.99 per share.

The following table reflects pro forma combined results of operations of the Company, Legent, and Cheyenne on the basis that the acquisitions had taken place at the beginning of fiscal year 1996. The after-tax charge of $598 million in fiscal year 1997 related to the acquisition of Cheyenne was recorded at the beginning of the fiscal year for each of the periods presented. The after-tax charge in fiscal year 1996 of $808 million related to the Legent acquisition is reflected in only the fiscal year 1996 results of operations:

	Year Ended March 31, 1997	1996
	(Amounts in millions, except per share amounts)	
Revenue	$4,175	$3,789
Net income (loss)	322	(775)
Net income (loss) per Common Share	$ .85	$ (2.14)
Shares used in computation*	379	362

The following table reflects pro forma combined results of operations of the Company, Legent, and Cheyenne on the basis that the acquisitions had taken place at the beginning of fiscal year 1996 and excludes the effect of the after-tax charges of $598 million for Cheyenne and $808 million for Legent:

	Year Ended March 31, 1997	1996
	(Amounts in millions, except per share amounts)	
Revenue	$4,175	$3,789
Net income	920	631
Net income per Common Share	$ 2.43	$ 1.67
Shares used in computation*	379	378

In management's opinion, the pro forma combined results of operations are not indicative of the actual results that would have occurred had the acquisitions been consummated at the beginning of fiscal year 1996 or of future operations of the combined companies under the ownership and operation of the Company.

*Adjusted for three-for-two stock splits effective August 21, 1995 and June 19, 1996.

Note 3 — Investments

The following is a summary of cash equivalents and marketable securities classified as "available-for-sale" securities as required by FASB 115:

	Cost	Gross Unrealized Gains	Estimated Fair Value
		(Dollars in millions)	
March 31, 1997:			
Debt securities	$ 56		$ 56
March 31, 1996:			
Debt securities	$104	$ 1	$105

For years ended March 31, 1997 and 1996, no debt securities were deemed to be Cash and Cash Equivalents.

The gross realized gains on sales of available-for-sale securities totaled $1 million for the years ended March 31, 1997 and 1996. There were no gross realized losses for the years ended March 31, 1997 and 1996. There were no gross realized gains and a gross realized loss of $2 million for the year ended March 31, 1995. No unrealized gains or losses existed at March 31, 1997, and an unrealized gain of $1 million existed at March 31, 1996.

The amortized cost and estimated fair value based on published closing prices of debt securities at March 31, 1997, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	March 31, 1997	
	Cost	Estimated Fair Value
	(Dollars in millions)	
Available-for-Sale:		
Due in one year or less	$21	$21
Due one through three years	18	18
Due in three through five years	17	17
	$56	$56

Note 4 — Geographic Area Information and Foreign Operations

	United States	Foreign (a)	Eliminations	Total
		(Dollars in millions)		
March 31, 1997:				
Revenue:				
To unaffiliated customers	$2,315	$1,725		$4,040
Between geographic areas (b)	335		$(335)	
Total Revenue	2,650	1,725	(335)	4,040
Net income	101	265		366
Identifiable assets	4,584	2,014	(514)	6,084
Total liabilities	3,791	1,304	(514)	4,581
March 31, 1996:				
Revenue:				
To unaffiliated customers	$1,678	$1,827		$3,505
Between geographic areas (b)	403		$(403)	
Total Revenue	2,081	1,827	(403)	3,505
Net (loss) income	(281)	225		(56)
Identifiable assets	3,709	1,897	(590)	5,016
Total liabilities	2,767	1,357	(590)	3,534
March 31, 1995:				
Revenue:				
To unaffiliated customers	$1,263	$1,360		$2,623
Between geographic areas (b)	290		$(290)	
Total Revenue	1,553	1,360	(290)	2,623
Net income	277	155		432
Identifiable assets	2,305	1,470	(506)	3,269
Total liabilities	1,124	1,073	(506)	1,691

(a) The Company operates wholly owned subsidiaries in 43 foreign countries, including Canada, Middle East, Africa, Europe (22), South America (6) and the Pacific Rim (12).

(b) Represents royalties from foreign subsidiaries generally determined as a percentage of certain amounts invoiced to customers.

For the years ended March 31, 1997, 1996, and 1995, $36 million, $39 million, and $43 million, respectively, of export sales to unaffiliated customers are included in United States revenue.

Note 5 — Trade and Installment Accounts Receivable

Trade and installment accounts receivable consist of the following:

	March 31, 1997	March 31, 1996
	(Dollars in millions)	
Current receivables	**$2,220**	$1,809
Less: Allowance for uncollectible amounts	**(191)**	(160)
Unamortized discount and maintenance fees	**(515)**	(467)
	$1,514	$1,182
Non-current receivables	**$3,244**	$2,705
Less: Allowance for uncollectible amounts	**(36)**	(22)
Unamortized discount and maintenance fees	**(1,008)**	(982)
	$2,200	$1,701

The provisions for uncollectible amounts for the years ended March 31, 1997, 1996 and 1995 were $110 million, $71 million, and $89 million, respectively, and are included in selling, marketing and administrative expenses.

Note 6 — Debt

In fiscal year 1997, the Company renegotiated its $2 billion reducing credit facility into a $2 billion unsecured facility consisting of a $1.3 billion 5-year revolving credit agreement and a $.7 billion 364-day revolving credit agreement. The credit facility provides for the maintenance of certain financial ratios and restrictions on the amount of cash dividends that may be declared. Interest under the facility is generally at the prevailing London Interbank Rate ("LIBOR") plus a spread based on the Company's achievement of certain ratios. Commitment fees are also due under each agreement. At March 31, 1997, the Company was paying interest at approximately 6%. The amount outstanding under this credit facility at March 31, 1997 was $1,840 million.

In fiscal year 1996, the Company had a $2 billion unsecured 5-year reducing revolving credit facility with a group of banks. This facility has been superseded by the $2 billion facility above. The amount outstanding under this credit facility at March 31, 1996 was $1,390 million.

During April 1996, the Company completed the private placement of $320 million of unsecured senior debt due 2003. The debt has a fixed rate of interest of 6.77% which is payable semi-annually. Proceeds from this private placement were used to repay outstanding debt. The private placement enabled the Company to extend the maturity of its debt, commit to a fixed rate of interest and broaden the Company's source of liquidity.

Unsecured and uncommitted multicurrency credit facilities of $24 million are also available to meet any short-term working capital requirements and can be drawn upon, up to a predefined limit, by most subsidiaries. Under these multicurrency facilities, approximately $5 million was drawn at March 31, 1997 and $3 million was drawn at March 31, 1996.

The Company also has various other debt obligations outstanding at March 31, 1997 and 1996. These fixed rate debt obligations carry annual interest rates ranging from 6% to 7-1/2%.

The Company conducts an ongoing review of its debt balances as part of its risk management strategy. To date, the Company has not entered into any form of derivative transactions related to its debt instruments. The fair market value of long-term debt approximates its carrying value.

The maturities of long-term debt outstanding for the five fiscal years are as follows: 1998—$548 million; 1999—$2 million; 2000—$69 million; 2001—$69 million; and 2002—$1,369 million.

Interest expense for the years ended March 31, 1997, 1996, and 1995 was $104 million, $81 million, and $24 million, respectively, and is netted with interest income.

Note 7 — Commitments and Contingencies

The Company leases real estate and certain data processing and other equipment with lease terms expiring through 2021. The leases are operating leases and generally provide for renewal options and additional rental based on escalation in operating expenses and real estate taxes. The Company has no material capital leases. The Company has announced plans to build a facility in the United Kingdom.

Rental expense under operating leases for the years ended March 31, 1997, 1996, and 1995 was $132 million, $165 million, and $108 million, respectively. Future minimum lease payments are: 1998—$95 million; 1999—$71 million; 2000—$55 million; 2001—$43 million; 2002—$33 million; and thereafter—$99 million.

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of marketable securities and accounts receivable. The Company's marketable securities consist primarily of high quality debt securities with limited exposure to any single instrument. The Company's accounts receivable balances have limited exposure to concentration of credit risk due to the diverse client base and geographic areas covered by operations.

The Company, various subsidiaries and certain current and former officers have been named as defendants in various claims and lawsuits arising in the normal course of business. The Company believes that the facts do not support the plaintiffs' claims and intends to vigorously contest each of them.

Note 8 — Income Taxes

The amounts of income (loss) before income taxes attributable to domestic and foreign operations are as follows:

	Year Ended March 31,		
	1997	1996	1995
		(Dollars in millions)	
Domestic	$520	$(464)	$430
Foreign	412	364	267
	$932	$(100)	$697

The provision for income taxes (benefit) consists of the following:

	Year Ended March 31,		
	1997	1996	1995
		(Dollars in millions)	
Current:			
Federal	$256	$160	$166
State	38	30	23
Foreign	51	56	34
	345	246	223
Deferred:			
Federal	106	(337)	(47)
State	19	(36)	10
Foreign	96	83	79
	221	(290)	42
Total:			
Federal	362	(177)	119
State	57	(6)	33
Foreign	147	139	113
	$566	$ (44)	$265

Under Financial Accounting Standards Board Statement No. 109, deferred income taxes have been provided for the differences between financial statement and tax basis of assets and liabilities. The cumulative impact of temporary differences, primarily due to the modified accrual basis (approximately 83% in 1997 and 88% in 1996 of total deferred income taxes), purchase accounting adjustments (approximately 8% in 1997 and 16% in 1996), net capitalized development costs (approximately 2% in 1997 and 1996) and receivable reserves (a deferred tax asset of approximately 3% in 1997 and 4% in 1996) is shown on the Consolidated Balance Sheets under the captions "Deferred Income Taxes."

The provision for income taxes (benefit) is reconciled to the tax provision computed at the federal statutory rate as follows:

	Year Ended March 31,		
	1997	1996	1995
		(Dollars in millions)	
Statutory rate	$326	$(35)	$244
State taxes, net of federal tax effect	37	(4)	22
Purchased research and development	209		
Other, net	(6)	(5)	(1)
	$566	$(44)	$265

Note 9 — Stock Plans

The Company has a 1981 Incentive Stock Option Plan (the "1981 Plan") pursuant to which options to purchase up to 18 million shares of Common Stock of the Company were available for grant to employees (including officers of the Company). The 1981 Plan expired on October 23, 1991. Therefore, from and after that date no new options can be granted under the 1981 Plan. Pursuant to the 1981 Plan, the exercise price could not be less than the Fair Market Value ("FMV") of each share at the date of grant. Options granted thereunder may be exercised in annual increments commencing one year after the date of grant and become fully exercisable after the expiration of five years. All options expire ten years from date of grant unless otherwise terminated. All of the 1 million options which are outstanding under the 1981 Plan were exercisable at March 31, 1997 at $3.33–$6.14 per share.

The Company has a 1987 Non-Statutory Stock Option Plan (the "1987 Plan") pursuant to which options to purchase up to 11.3 million shares of Common Stock of the Company may be granted to select officers and key employees of the Company. Pursuant to the 1987 Plan, the exercise price shall not be less than the FMV of each share at the date of the grant. The option period shall not exceed 12 years. Each option may be exercised only in accordance with a vesting schedule established by the Stock Option and Compensation Committee. As of March 31, 1997, 20,250 shares of the Company's Common Stock were available for future grants. 5.5 million of the 6.1 million options which are outstanding under the 1987 Plan were exercisable as of that date. These options are exercisable at $3.33–$6.39 per share.

The Company's 1991 Stock Incentive Plan (the "1991 Plan") provides that stock appreciation rights and/or options, both qualified and non-statutory, to purchase up to 45 million shares of Common Stock of the Company may be granted to employees (including officers of the Company) under conditions similar to the 1981 Plan. As of March 31, 1997, no stock appreciation rights

have been granted under this plan and 24.4 million options have been granted. At March 31, 1997, 3.9 million of the 19.6 million options which are outstanding under the 1991 Plan were exercisable. These options are exercisable at $5.00–$61.31 per share.

The 1993 Stock Option Plan for Non-Employee Directors (the "1993 Plan") provides for non-statutory options to purchase up to a total of 225,000 shares of Common Stock of the Company to be available for grant to each member of the Board of Directors who is not otherwise an employee of the Company. Pursuant to the 1993 Plan, the exercise price shall be the FMV of the shares covered by the option at the date of grant. The option period shall not exceed ten years, and each option may be exercised in whole or in part on the first anniversary date of its grant. As of March 31, 1997, 81,000 options have been granted under this plan. 45,000 of the 63,000 options which are outstanding under the 1993 Plan were exercisable as of that date. These options are exercisable at $11.39–$56.75 per share.

The following table summarizes the activity under these plans (shares in millions):

	1997		1996		1995	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Beginning of year	27.5	$13.07	25.9	$ 8.28	23.3	$ 6.32
Granted	6.2	47.26	6.2	29.01	6.1	14.00
Exercised	(5.3)	10.07	(3.4)	5.97	(2.8)	4.73
Terminated	(1.6)	24.93	(1.2)	12.32	(0.7)	6.93
End of year	26.8	20.94	27.5	13.07	25.9	8.28
Options exercisable at end of year	10.5	$10.59	9.8	$ 5.74	9.2	$5.30

The following table summarizes information about these plans at March 31, 1997 (shares in millions):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$ 3.33 – $10.00	8.2	5.1 years	$ 5.21	7.0	$ 5.01
$10.01 – $20.00	8.0	6.6 years	12.67	2.1	12.56
$20.01 – $30.00	5.6	8.0 years	28.64	0.7	27.18
$30.01 – $40.00	0.1	4.5 years	35.06	0.1	35.06
$40.01 – $50.00	0.5	5.2 years	43.75	0.5	43.75
$50.01 – $61.31	4.4	9.1 years	52.62	0.1	57.49
	26.8			10.5	

Under the 1995 Key Employee Stock Ownership Plan ("1995 Plan"), 13.5 million restricted shares are available for grant to three key executives. An initial grant of 4.5 million restricted shares was made to the executives at inception of the 1995 Plan. In January 1996, based on the achievement of a price target for the Company's common stock, .9 million shares of the initial grant vested, subject to continued employment of the executives through March 31, 2000. Accordingly, the Company began accruing compensation expense associated with the .9 million shares over the employment period. Annual compensation expense of $7 million has been charged against income for each of the years ended March 31, 1997 and 1996. Additional grants of the remaining 9 million shares available under the 1995 Plan have been reserved pending the achievement of the certain price targets. These additional grants and the unvested portion of the initial grant are subject to risk of forfeiture through March 31, 2000, and further subject to significant limitations on transfer during the seven years following vesting.

If the Company had elected to recognize compensation expense based on the fair value of stock plans as prescribed by FAS No. 123, net income (loss) and net income (loss) per share would have been reduced to the pro forma amounts in the table below:

	1997	1996
	(Amounts in millions, except per share amounts)	
Net income (loss)—as reported	$366	$ (56)
Net income (loss)—pro forma	301	(94)
Net income (loss) per share—as reported	$ .97	$(.16)
Net income (loss) per share—pro forma	.79	(.26)

The weighted-average fair value at date of grant for options granted in 1997 and 1996 were $29.00 and $15.79, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The following assumptions were used for option grants in 1997 and 1996, respectively; dividend yield of .19% and .34%; expected volatility factors of .50; risk-free interest rates of 6.5% and an expected life of six years. The compensation expense and pro forma net income (loss) may not be indicative of amounts to be included in future periods.

All references to the number of shares under option and option prices have been adjusted to reflect three-for-two stock splits effective August 21, 1995 and June 19, 1996.

Note 10 — Profit Sharing Plan

The Company maintains a profit sharing plan, the Computer Associates Savings Harvest Plan ("CASH Plan"), for the benefit of employees of the Company. The CASH Plan is intended to be a qualified plan under Section 401(a) of the Internal Revenue Code of 1986 (the "Code") and contains a qualified cash or deferred arrangement as described under Section 401(k) of the Code. Pursuant to the CASH Plan, eligible participants may elect to contribute a percentage of their annual gross salary. Matching contributions to the CASH Plan for the years ended March 31, 1997, 1996, and 1995 were $5 million, $5 million, and $4 million, respectively. In addition, the Company may make discretionary contributions to the CASH Plan. Discretionary contributions to the CASH Plan for the years ended March 31, 1997, 1996 and 1995 were $17 million, $17 million and $16 million, respectively.

Note 11 — Rights Plan

Each outstanding share of the Company's Common Stock carries a stock purchase right issued under the Company's Rights Agreement, dated June 18, 1991 and amended May 17, 1995 (the "Rights Agreement"). Under certain circumstances, each right may be exercised to purchase one one-thousandth of a share of Series One Junior Participating Preferred Stock, Class A, for $300. Under certain circumstances, following (i) the acquisition of 20% or more of the Company's outstanding Common Stock by an Acquiring Person (as defined in the Rights Agreement), (ii) the commencement of a tender offer or exchange offer which would result in a person or group owning 20% or more of the Company's outstanding common stock or (iii) the determination by the Company's Board of Directors and a majority of the Disinterested Directors (as defined in the Rights Agreement) that a 15% stockholder is an Adverse Person (as defined in the Rights Agreement), each right (other than rights held by an Acquiring Person or Adverse Person) may be exercised to purchase common stock of the Company or a successor company with a market value of twice the $300 exercise price. The rights, which are redeemable by the Company at one cent per right, expire in June 2001.

International Headquarters

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Annual Meeting

The annual meeting of the Stockholders of Computer Associates International, Inc. will be held at the Company's international headquarters on Wednesday, August 13, 1997 at 10:00 a.m. E.D.T.

Computer Associates Stock

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "CA." The following table, adjusted for three-for-two stock splits effective August 21, 1995 and June 19, 1996, sets forth, for the quarters indicated, the quarterly high and low closing prices on the New York Stock Exchange.

	High	Low
Fiscal 1997:		
Fourth Quarter	$ 49.00	$ 38.13
Third Quarter	$ 67.25	$ 48.75
Second Quarter	$ 63.13	$ 40.50
First Quarter	$ 54.08	$ 44.00

	High	Low
Fiscal 1996:		
Fourth Quarter	$ 50.58	$ 35.25
Third Quarter	$ 45.25	$ 25.08
Second Quarter	$ 33.89	$ 27.17
First Quarter	$ 32.45	$ 24.78

On March 31, 1997, the closing price for the Company's Common Stock on the New York Stock Exchange was $38.88. The Company currently has approximately 8,500 record stockholders.

On May 20, 1997, the Company declared its regular, semi-annual cash dividend of $.05 per share to stockholders of record June 20, 1997 and payable on July 7, 1997. The Company has paid cash dividends in July and January of each year since July 1990.

Stockholder Information

A copy of the Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is available without charge upon written request addressed to:

Investor Relations
Computer Associates International, Inc.
One Computer Associates Plaza
Islandia, NY 11788-7000

General Company information and quarterly earnings can be obtained by contacting Investor Relations at (516) 342-5601 or by FAX at (516) 342-6864. The most recent earnings release can be electronically transmitted to you by calling (516) 342-5377.

CA On The Internet

General financial information and news about CA's products are available via CA's Home Page on the Internet at http://www.cai.com.

Dividend Reinvestment Program

CA's Dividend Reinvestment Program allows stockholders to reinvest dividends and invest additional cash to purchase CA common stock. You must already be a registered stockholder to participate. For more information, contact CA's transfer agent at the below address or telephone number.

Transfer Agent

Questions concerning dividend reinvestment, stock certificates, address changes, account consolidation, 1099 tax forms and dividend checks or direct deposits should be directed to:

ChaseMellon Shareholder Services, L.L.C.
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