As Flexible as the Future

2003 ANNUAL REPORT | Fiscal Year Ending March 2003

Computer Associates®

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FINANCIAL SUMMARY

	2003	2002
(in millions, except per share data)		
Revenue	$3,116	$ 2,964
Net Loss(1)	$ (267)	$(1,102)
Diluted LPS(1)	$(0.46)	$ (1.91)
Dividends per Share	$ 0.08	$ 0.08
Cash from Operations	$1,309	$ 1,251

(1) As discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," beginning on April 1, 2002. This prospectively eliminated the amortization of goodwill and certain other intangible assets.

CHAIRMAN AND CEO'S LETTER

DEAR FELLOW INVESTOR:

For us, Fiscal 2003 was all about seeking higher standards and better execution in everything we do. In a very challenging economic environment — particularly in the Information Technology (IT) sector — Computer Associates (CA) is appealing to customers who are increasingly focused and disciplined in their infrastructure technology decisions. As a result, we must be as flexible as what the future will demand of us in order to build long-term partnerships that deliver value and continue to drive CA's success.

This past year, we appealed to customers by increasing our market presence in three ways. First, we offer the software industry's most comprehensive and innovative management solutions. Second, our business model makes it easier for customers to license, install and run our software based on their own specific needs and their own specific environments. Finally, we foster a company culture that puts customers at the center of everything we do. In short, we demonstrate flexibility on behalf of our customers and are building value in CA.

The power of our approach was reflected in increased revenues, increased number of overall license transactions and increased customer satisfaction. We grew in some of the most important measures of financial health. We increased fiscal 2003 revenues 5 percent to $3.12 billion, narrowed our GAAP loss to $0.46 per share and generated $1.31 billion in cash from operations, an increase of 5 percent over the previous year.

We are fortunate for the **seasoned management team** that is *carrying our company forward as we* strive to be **one of the most flexible, efficient** enterprise software companies.

While we are encouraged by our progress, we recognize the economic challenges we face in sectors such as information management tools and storage management solutions. Customers' demand for these offerings continues to be tempered, at least in the short term, by their own economic concerns and consequent budget constraints. Our role is to be realistic, while being prepared for longer-term opportunities.

On a more encouraging note, CA's enterprise management solutions, which provide compelling, long-term returns on investment, are enjoying stronger demand. Also, the security challenge that corporations face continues to be a topic of great interest from the data center to the boardroom. This provides a great opportunity for CA's highly competitive security offerings.

In response to shifting market dynamics and demands, we reorganized and redirected two key parts of our business during the past six months. We did this to help ensure that our professional services and indirect, or channel, operations are better prepared to meet the opportunities and challenges that lie ahead. To enhance our ability to execute in these areas, we reorganized the work force and management teams. We believe these improvements position CA to take advantage of what we hope is an improving economic environment, while delivering more value to our customers.

TOMMY BENNETT | ROBERT B. LAMM | IRA ZAR | WAI WONG | GREGORY CORGAN | STEVEN M. WOGHIN | ANDREW GOODMAN | NANCY BHAGAT | SANJAY KUMAR | CHARLIE HOLLERAN

Going forward, we believe our business model gives us the flexibility to continue driving innovation in our business and technology.

PUTTING CUSTOMERS FIRST

Over the past three years, we have refitted and retooled nearly every aspect of our business to better serve our customers. In the past 12 months alone, we branded the way we sell our solutions as FlexSelect Licensing℠, created a new organization — CA Technology Services — to provide customers with exceptional technical expertise, and evolved our CustomerConnect℠ family of continuous, web-based support.

With FlexSelect Licensing, customers have access to CA's software solutions on affordable and flexible terms. After more than two years, customers are telling us they not only appreciate our unrivaled licensing flexibility, but they also view it as a competitive edge for CA. Wall Street analyst firm CIBC World Markets Corp. says that FlexSelect Licensing "promotes goodwill, as clients view CA as more customer-centric in showing flexibility to their needs and a greater commitment to the relationship." Equity research firm FTN Midwest Research notes that "CA's new business model fits right into today's tight IT spending environment. By making its products easier to buy, CA not only is poised to gain market share, but will likely also win goodwill with its customers." We believe that our model will become the standard for our industry in the years ahead.

By combining our technical pre-sales and professional services organizations, CA Technology Services connects our technical experts with potential customers from the initial interaction through the life of the project. We are now able to deliver valuable product and service breadth and depth, and respond quickly to new business opportunities that result from our closer relationships.

RUSSELL M. ARTZT — UNA O'NEILL — STEPHEN RICHARDS — MARK COMBS — FRANK YANG — KEVIN LONG — GARY QUINN — MARY STRAVINSKAS — YOGESH GUPTA — GARY STARKEY

On a tactical level, we now offer customers the flexibility to download and pay for software, receive technical assistance and manage their accounts all from their computers through CustomerConnect.

All our efforts are aimed at making it easier for customers to do business with CA. Based on what customers are telling us, our efforts are making a difference and helping CA stand out from the competition.

SETTING A HIGHER STANDARD

Throughout the year, we remained committed to setting the highest standards of quality in everything we do.

In 2000, CA became the first enterprise software company to achieve worldwide certification with ISO 9002:1994 for quality in more than 200 offices and 40 countries by the International Organization for Standardization (ISO). This was a tremendous achievement for CA, and it was only the beginning. In 2003, CA achieved global ISO 9001:2000 certification for our quality management system used by all CA operations worldwide.

Our pursuit of "gold-standard" quality is also apparent in our continued focus on corporate governance.

During the year, Robert B. Lamm joined CA as Director of Corporate Governance, a new position responsible for the ongoing development and implementation of corporate governance programs and policies. Also during the year, the CA Board of Directors adopted state-of-the-art corporate governance principles designed to achieve strong Board oversight and alignment with shareholder interests. The Board established a lead independent director position and elected Lewis S. Ranieri, founder of Hyperion Partners, to fill it.

Related to Board composition, it is with great sadness that I note the passing, in January 2003, of distinguished Board member Thomas H. Wyman, former Chairman and CEO of CBS Inc.

> During the year, the CA Board of Directors *adopted state-of-the-art* **corporate governance principles** designed to achieve strong Board oversight and **alignment with shareholder interests.**

We continued to seek out highly qualified individuals to serve, and in May 2003, former EDS Vice Chairman, Gary J. Fernandes, was elected to the Board.

As we move forward, we are fortunate that our key Board committees are guided by seasoned professionals and recognized industry experts. Our Human Resources and Compensation Committee is headed by Lewis S. Ranieri; the Corporate Governance and Nominating Committee by Harvard University's renowned corporate governance expert Jay W. Lorsch; and our Audit Committee by Walter P. Schuetze, former chief accountant to the Securities and Exchange Commission.

In addition, the Company set term limits for independent directors, adopted strict rules prohibiting the repricing of stock options (even though we have never repriced options in our history), and took the lead in the technology sector by announcing CA would begin to expense stock options, effective April 1, 2003. Finally, by filing our Form 10-Q and Form 10-K reports within hours of our earnings releases — no simple task — CA has enhanced the timing of its financial disclosures. Not only are we *pursuing* the gold standard in all that we do, in some instances we are clearly *defining* the gold standard.

On a separate note, we continue to cooperate fully with the previously reported investigations being conducted by the government. We are hopeful that they will be resolved in a timely manner.

DELIVERING THE "RIGHT" TECHNOLOGY

Looking ahead, we see a shift in the enterprise software business. For several decades, IT industry growth

We will never tire of searching for truly innovative solutions to ***changing*** **business demands.**

has been technology driven, because each new innovation would spur a new round of buying.

With customers expecting a return from every IT dollar, technology providers can no longer rely on buyers' insatiable demand for the latest thing. New technology will need to offer real solutions to real business problems. Successful IT companies will have to truly understand a customer's business, determine what solutions will help that customer operate more effectively and develop the "right" technologies that enable the customer to succeed.

On-demand computing is a case in point. It's a vision for computing in which businesses access computing capacity and power in the same way they do electricity. This approach would solve three significant problems for customers — responsiveness, inefficiency and cost.

Most businesses today are dealing with multiple platforms, multiple solutions from multiple vendors and a host of challenges as they work to integrate legacy systems. The goal of on-demand computing is to hide that complexity and enable customers to quickly respond to changing business requirements. Customers will ultimately benefit from systems that have the ability to recognize — dynamically and automatically — which resources are at capacity, scour the enterprise for available resources and configure them to handle the task at hand. This would happen in a matter of hours — or even minutes — in a reliable and repeatable manner with little chance for error.

We believe the key to on-demand computing is management software.

Customers don't need to replace their IT infrastructures to benefit from on-demand computing. They need a way to better manage their current resources. CA is well positioned to help them. For a quarter of a century, we have applied our management capabilities to meet an ever-escalating demand for integrated solutions to manage IT needs.

In April 2003, CA announced a host of solutions within our Unicenter® brand to manage on-demand computing. We will expand our managing on-demand offerings to include our BrightStor® and *e*Trust™ brands. As the market evolves, we plan to apply our core enterprise management, security and storage strengths to pursue the next phase of on-demand computing.

In the near term, we continue to develop and deliver technologies that help customers run their businesses effectively today.

In closing, I want to thank the women and men of CA, who have worked so hard to ensure our Company's continued success, and offer a special thanks to our leadership team, whose vision and determination are helping us chart a course to future growth.

In addition, I want to acknowledge the innumerable contributions of our founder, Charles B. Wang, who retired last fall. We are fortunate to be able to build upon a strong foundation that he helped create. We will honor his legacy by continuing the rich tradition of community service in which he strongly believed.

2004 is going to be an exciting year for CA and one of great opportunity. Given the tremendous dynamics of our industry, we will continue to be as flexible as what the future will demand of us, in order to build value for our customers, our employees and our shareholders.

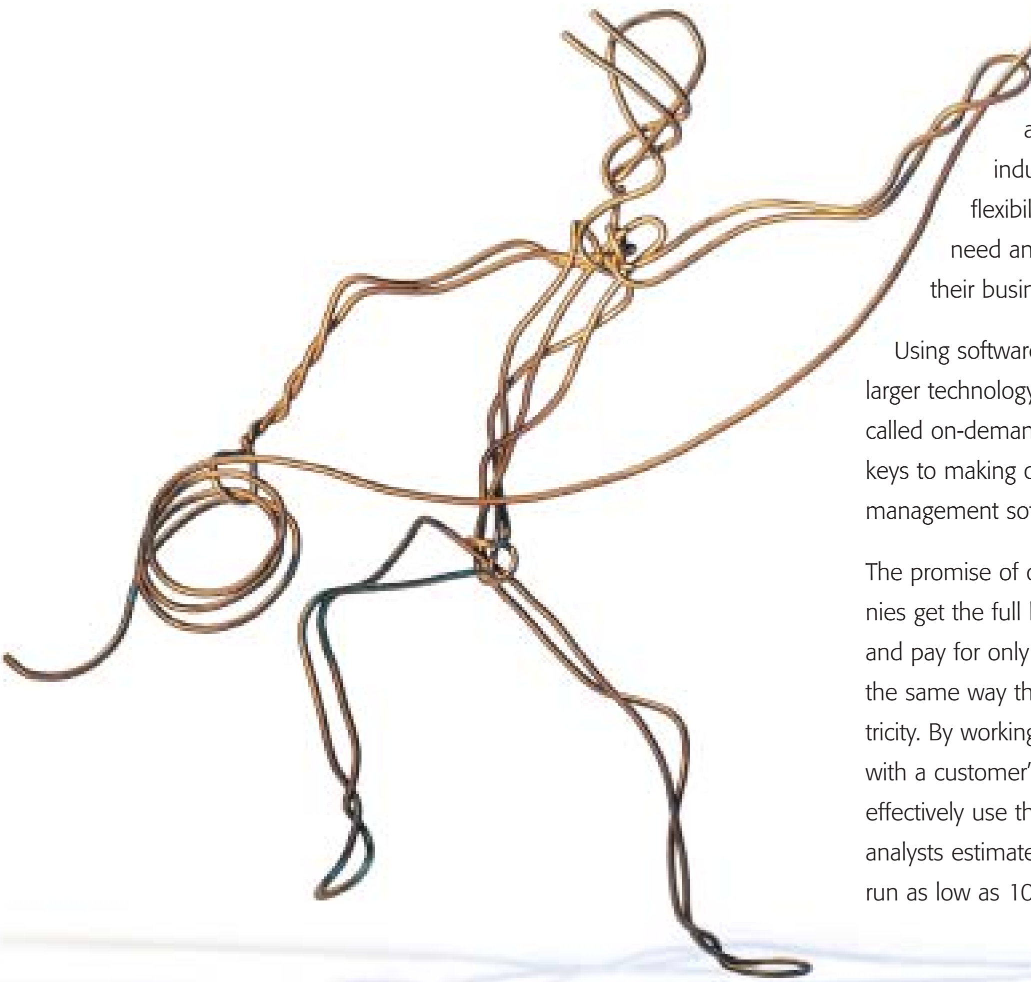
Thank you for your continued support.

Sanjay Kumar
Chairman and Chief Executive Officer

Managing On-Demand

Nothing spurs innovation like a tough economy. Tightened corporate spending continues to challenge IT departments to do more with less. Of the nearly $900 billion that industry analyst International Data Corporation (IDC) estimates companies will spend globally on technology and software this year, much of it will be tightly tied to bottom lines. Instead of buying the hottest new technology, companies are looking to invest only in those technologies that directly support their businesses, don't require an overhaul of their entire computing systems and can deliver an immediate return on their investments.

CA is meeting customer needs today by delivering products and services that are modular, integrate seamlessly with one another and can grow with the business. In an industry first, CA has given customers the flexibility to license only the software they need and to focus on the value it brings to their businesses.



Using software as needed is a precursor to a much larger technology trend that companies are moving to, called on-demand computing. CA believes one of the keys to making on-demand computing a reality is management software.

The promise of on-demand computing is that companies get the full benefit of the IT resources they have and pay for only as much or as little as they need, in the same way they use and pay for a utility, like electricity. By working this way, IT becomes more aligned with a customer's business and helps companies more effectively use their computing capacity. Today, industry analysts estimate that average server utilization rates run as low as 10 to 20 percent for distributed systems.

That creates a significant opportunity for increased efficiencies, one that has the potential to transform our industry.

MANAGING BUSINESS DYNAMICS

As a leader in enterprise, security and storage management software, CA is well positioned to help companies take advantage of their on-demand initiatives. For more than a quarter-century, companies have been relying on CA technology to manage critical aspects of their infrastructures, while enabling them to focus on their businesses. The challenges of on-demand computing are no different. Regardless of how the trend evolves or how companies define it, the key to success will always be effective management.

For companies to use their IT resources most effectively, they must have a way to manage all elements of their infrastructures and clearly view the impact on their businesses. They must be able to run their networks and monitor performance so tasks can be automatically reassigned when a business process, for example, needs more capacity.

Such dynamic allocation of resources means infrastructures are less static than ever. In the case of servers, they would be redeployed regularly. This means companies need automated software solutions to handle many critical functions. These software solutions must allocate servers based on required levels of service, provision and configure the software to run the applications, make sure user accounts are set up properly so people will have access to the systems they need, make sure the security settings on the servers are properly configured, allocate storage based on service requirements, and manage backup and recovery.

CA believes the key to making **on-demand computing** *a reality* is management software.

Because CA software products support all leading platforms and operating systems, we can help companies achieve the benefits of on-demand computing by working with, rather than replacing, their existing infrastructures. For more than a year, we have been developing on-demand products and services based on our Unicenter enterprise management solutions, as well as our *e*Trust security and BrightStor storage capabilities. While others are outlining on-demand strategies and visions, in April 2003, we delivered the first of many CA on-demand solutions.

Our Unicenter solutions for managing on-demand computing dramatically improve the utilization of IT resources. These new Unicenter products automatically track which IT resources are being used for each business problem and monitor their use. They also track whether additional resources are needed or other resources are available, and automatically match resources to needs promptly, while reducing the chance for error.

We're also working on new products within our BrightStor storage and *e*Trust security families of solutions to manage on-demand computing. As resources are reallocated from one business process to another, backup and recovery and information security policies have to be kept up to date as well. Together, these solutions will change the way companies view IT

New Technology, New Markets

management from a task-oriented function to one that is truly aligned with the needs of the business. We plan to continue developing and delivering solutions that prepare customers today for their transition to on-demand computing and drive growth for CA.

MANAGING BUSINESS VALUE

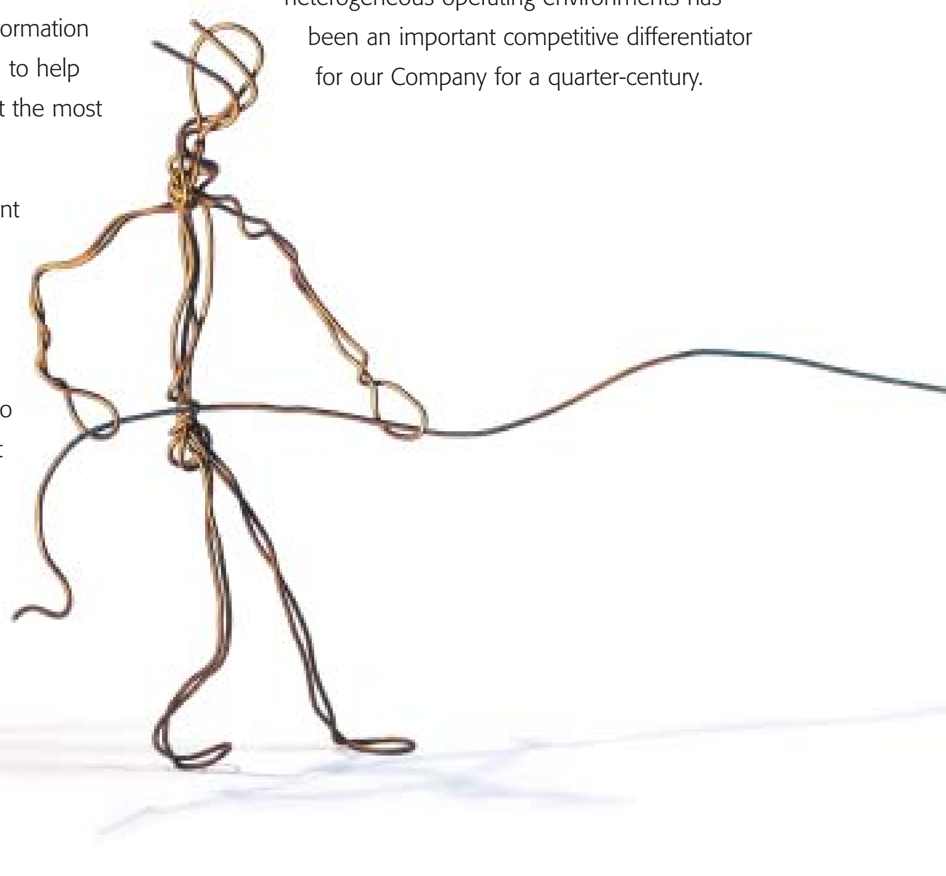
To be successful, companies must be able to respond quickly to new opportunities, competitive challenges and customer requests. They must also be able to turn their corporate data into information, and then the information into action. And they must be able to cost-effectively integrate information from across their company.

In addition to our strengths in enterprise management, storage and security, CA continues to provide customers with competitive advantages through portal and business intelligence, application life-cycle management and database management solutions. CA's CleverPath™, AllFusion™ and Advantage™ information management solutions are each designed to help companies in widely diverse industries get the most value out of their IT infrastructures.

For example, CA's information management solutions are enabling one customer to handle 15 to 20 percent more shipping orders without increased costs, helping a European government collect taxes and enabling a global greeting card company to keep its complex application development process efficient with fewer errors. By using our technology, customers can deliver higher service levels, run more efficient development processes, improve productivity and expand their businesses, while still managing costs.

Beyond on-demand computing, we continue to pursue additional next-generation technologies that we believe will help our customers improve productivity and run their businesses more effectively. Last year, we embarked upon strategic technology initiatives to address promising opportunities in supporting the deployments of the Linux operating platform, wireless infrastructures and Web Services.

Through one of our initiatives, CA offers a large portfolio of Linux-based software products for desktops, servers and blade-servers, as well as mainframe computing systems. Several customers are already using our next-generation solutions to manage their investment in Linux technology. Along with the emerging Linux operating system, we continue to support all enterprise operating systems available to our customers, including Windows, various UNIX versions, IBM's z/OS and others. This rich tradition of supporting heterogeneous operating environments has been an important competitive differentiator for our Company for a quarter-century.



Because of the openness of our products, we believe we are well positioned to take full advantage of the growing use of Linux-based systems.

Recently, we announced unique security products such as *e*Trust™ 20/20™ and *e*Trust™ Security Command Center. *e*Trust 20/20 lets organizations manage the security of their information systems and physical assets in a unified manner. It integrates information from physical access security systems, such as access card readers, with information from IT security technologies, and automatically analyzes the data to identify any activity of interest to the security officers. This eliminates the tedious task of sifting through millions of records of security access data by hand, and makes the work of security personnel more efficient and accurate.

In addition, organizations use many different IT security products to safeguard their information. Just managing these products has itself become complex. Each of these products requires security administrators to define policies, monitor alerts and look for security problems. Often, administrators are faced with tens of thousands of security alerts daily. *e*Trust Security Command Center lets IT security administrators manage these various IT security products from a single console. Products such as *e*Trust 20/20 and *e*Trust Security Command Center demonstrate our commitment to innovate and create new market opportunities. They have been hailed by companies such as Pinkerton Securities as groundbreaking solutions for tomorrow's security needs.

This technology promises to revolutionize the way businesses ***integrate their systems*** with those of their **customers, partners and suppliers.**

Similarly, we've rolled out new solutions for storage management. Our new BrightStor backup products have been benchmarked as the fastest data backup and recovery products on the market. We've also delivered innovative products to manage the next generation of networked storage architectures — storage area networks (SANs) and network-attached storage (NAS).

It's All About the Customer

We're also working on solutions for new technologies such as wireless communications and Web Services. As the adoption of wireless networks continues to gain momentum in the corporate workplace, we hope to capitalize on the need to secure and manage these new networks just as wired networks are being secured and managed by CA software.

THE BUILDING BLOCKS OF TECHNOLOGY

The cornerstone of our technology efforts has been the continued evolution of technology components that are shared and used across multiple products and brands. Called CA Common Services™, these building blocks enable CA to create a technology once and use it across many products. CA Common Services are the basis for all our products and provide the architectural foundation for our new solutions. The benefits to our customers are obvious — our products are more consistent and easier to learn because they use the same components, the quality is higher because proven and tested components are used over and over, and we are able to deliver innovative solutions faster across our product lines by doing the work once and sharing it. It is also an extremely efficient use of our research and development dollars. In addition, many CA customers purchase additional CA solutions because they know CA Common Services will enable the new solutions to work together seamlessly.

The cornerstone of our technology efforts has been the **continued evolution of technology components** that are *shared and used* across multiple products and brands.

Product innovation isn't the only thing that is centered on our customers. Our customers help drive everything at CA. We work closely with them to understand their businesses and what they need to succeed. We keep our customers at the center of everything we do by acting upon their input with technology and services that are designed to serve them better.

One of the main changes CA made more than two years ago was to begin licensing its products through shorter-term, more flexible contracts — sometimes even month to month. The idea was to give customers the ability to determine the length and dollar value of a license agreement, to test CA's software against business needs and measure success as defined by customers. Because customers aren't locked into mega-sized, multiyear contracts, they can better adapt to changing business and technology needs, while better managing their software budgets and monitoring performance. For example, one of our customers adjusts and tunes its network and system component thresholds based on certain performance indicators that CA helped the customer develop.

Customers love it. This way of selling solutions is being so well received that, in January 2003, CA branded it FlexSelect Licensing. Virtually all new contracts signed over the past two years are under FlexSelect Licensing. In fact, customers are telling us it has become a competitive advantage.

Yet, selling shorter-term contracts may seem counterintuitive. It means we need to engage in more of them. It also means CA is now more accountable to customers post-sale for their continued satisfaction. We have to understand their businesses, and our software must help customers achieve their business goals. These are all good things for CA because they keep our customers at the center of what we do. And it's working.

In the past fiscal year, we signed more contracts than we signed last year. The simpler contracts reduce the type of extended negotiations that are the norm in the enterprise software industry. Instead, our customers can focus on getting the most value as quickly as possible from our technology. As one customer observed, "The fact that CA offered us flexible licensing terms to prove the value of the product was impressive."

CONTINUOUS EXPERTISE

To keep customers satisfied, we offer implementation solutions that address their business needs. Our customers are asking us for technical and strategic expertise before and after they license and implement our software.

As a result, in April 2003, we combined our technical pre-sales, professional services and education organizations to form CA Technology Services.

CA Technology Services is a global organization that works with customers to understand their businesses' requirements, to develop long-term strategies and to deliver CA technology solutions to achieve their business goals.

CA Technology Services is a team designed to put our consultants in a position to guide CA's sales account teams and the customer through the entire project life cycle. It gives customers unimpeded access to our rich technical skills. From the time we first speak, through the evaluation of our technology, to its successful implementation, customers see the same technical team. We expect this approach to compress implementation project life cycles, reducing what we call the "time-to-value" for our customers, and drive a faster return on software investments. We believe that together with the flexibility, accountability and quality of service we provide, CA Technology Services creates a competitive advantage for CA that we are optimistic will contribute to the company's revenues going forward.

We foster a **company culture** that puts customers at the center of ***everything we do.***

Our CA Technology Services organization works closely with our Customer Relations Organization, which comprises more than 600 employees who serve as advocates for CA customers and focus on enhancing our relationships with our customers. Our teams embed themselves in our customers' businesses, studying their IT teams from top to bottom, assessing

Driving Quality Full Circle

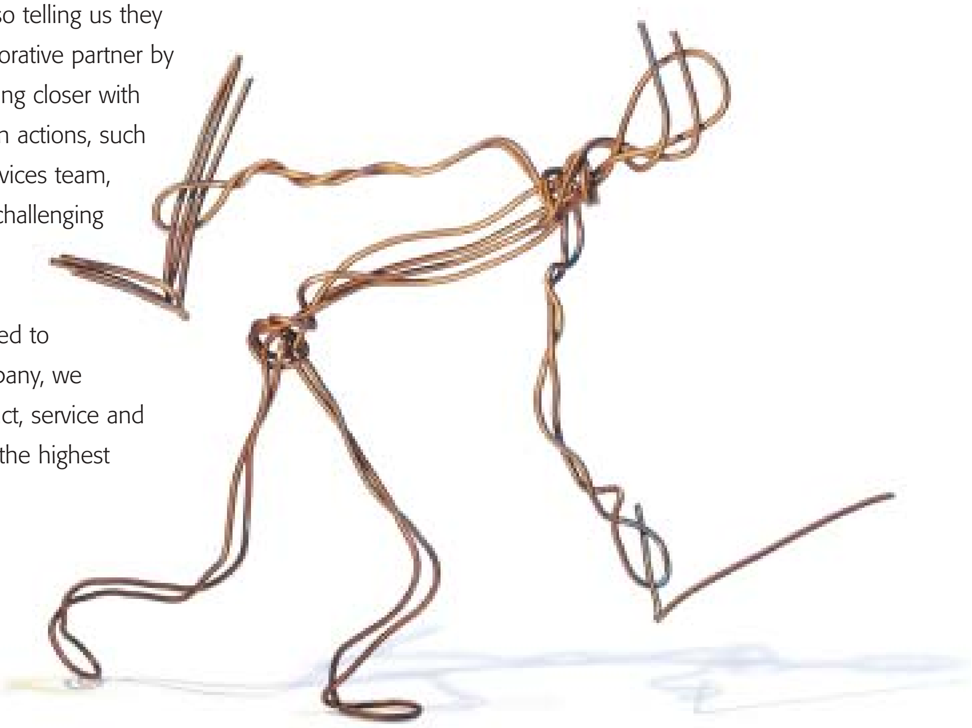
In striving to be the best we can be, CA is focused on improving the quality of every aspect of our business in every country where we operate. For example, CA became the first enterprise software company to be awarded worldwide ISO 9002:1994 certification in 2000 for our quality business processes by the International Organization for Standardization (ISO). While most companies would have rested, we raised the bar. In 2003, CA achieved "true global" ISO 9001:2000 certification, the new and ultimate step in ISO certification for product processes. CA is the only enterprise software company that uses one system to manage quality throughout its worldwide operations — truly a global approach. This certification independently confirms the quality of our business processes, practices and products for all CA offices around the world.

This is a powerful endorsement from ISO that directly benefits our customers. The ISO family of standards represents an international consensus on good management practices with the aim of ensuring that

the software they use and evaluating their experiences with CA. Acting as advocates, our Customer Relations representatives can then address issues and recommend additional services or education to help customers get the most value out of their CA software.

We also continue to conduct independent surveys of our customers worldwide to understand where we are doing well and where there is room to improve. According to our latest surveys, CA is evolving for the better. As one customer put it: "Our recent experiences have shown that CA is a genuine business partner. Not only do they understand our technical needs and find solutions to our challenges, but they also back their products with outstanding service and support." Other customers have specifically pointed to many areas of product quality, technical support, account teams and customer service in which CA compares favorably to other software companies. They're also telling us it's easier to do business with CA than it is to do business with many of our competitors.

That's good. But customers are also telling us they want us to become a more collaborative partner by sharing more of the risk and working closer with them. While we have already taken actions, such as creating the CA Technology Services team, we still want to do better. We are challenging ourselves to incorporate our customers' perspective in all our actions. Because we are determined to be the world's best software company, we will continually assess every product, service and process to ensure that they meet the highest standards of quality.



organizations can consistently deliver products or services that meet customers' crucial quality requirements. The requirements CA had to meet for this new, higher level of certification include a greater focus on providing and measuring customer satisfaction, rigorous adherence to a process model closely aligned to business practices and a process for continual improvement.

ENSURING PRODUCT QUALITY

One of the key features of how we do business is our Software Development Methodology. It reflects our holistic approach to the business of building products because it involves all aspects of our operations, including customers, early in the development process. This process is designed to shorten release cycles and to deliver more quickly the products customers want and need. By using this methodology, our goal is to eliminate systematically the chance for mistakes, errors or bad decisions.

We continue to involve customers throughout our development process through several programs. The Development Buddy™ Program is a partnership with customers that gives them direct access to CA's development resources, and provides CA with feedback to help us produce better products for individual customers and the market as a whole. Through CA's Beta Software Program, we deliver early versions of new products to select customers for rigorous, in-market stress testing. CA also has Product Advisory Councils, which are composed of experienced, prominent IT professionals who act as independent advisers to help us design effective development strategies and produce world-class solutions. Finally, more than 250 recognized CA user groups worldwide are made up of licensed customers who actively communicate with each other, and with us, about our products.

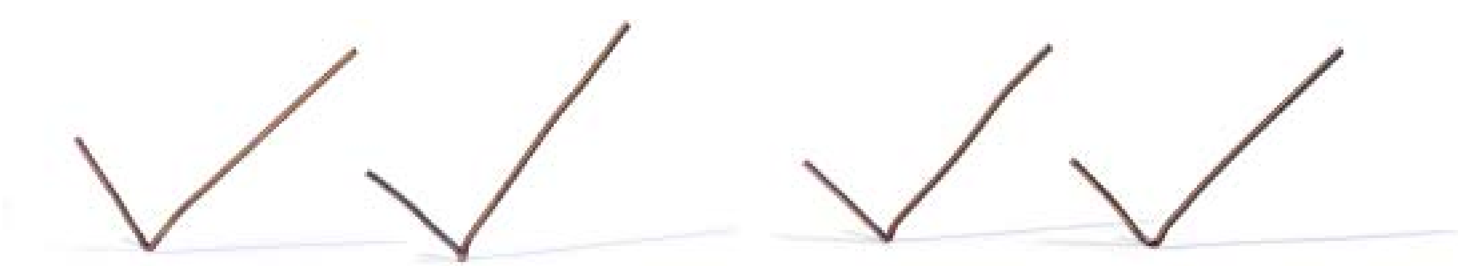
DELIVERING VALUE TOGETHER

Individually and collectively, our customer programs help us strengthen our partnerships and our software solutions. They provide us with direct feedback that we use to develop and enhance our software products. Such feedback was instrumental in our recent launch of CA's BrightStor® ARCserve® Backup v9 storage software solution. This particular product enhancement underwent one of the most aggressive beta testing programs in CA's history, and has met the highest quality metrics of any CA product.

In striving to be the **best we can be,** CA is focused on improving the quality ***of every aspect of our business*** in every country where we operate.

We are also relying on customer input to effectively develop and deliver our new and enhanced suite of enterprise management, security and storage management solutions that further customers' on-demand computing initiatives.

We continue to help customers manage the assets of their businesses and, specifically, their information. Our solutions enable companies to turn their information into action that takes the form of better service, improved productivity, reduced operating costs and business growth. We remain committed to actions and partnerships that deliver value to our customers and our shareholders.



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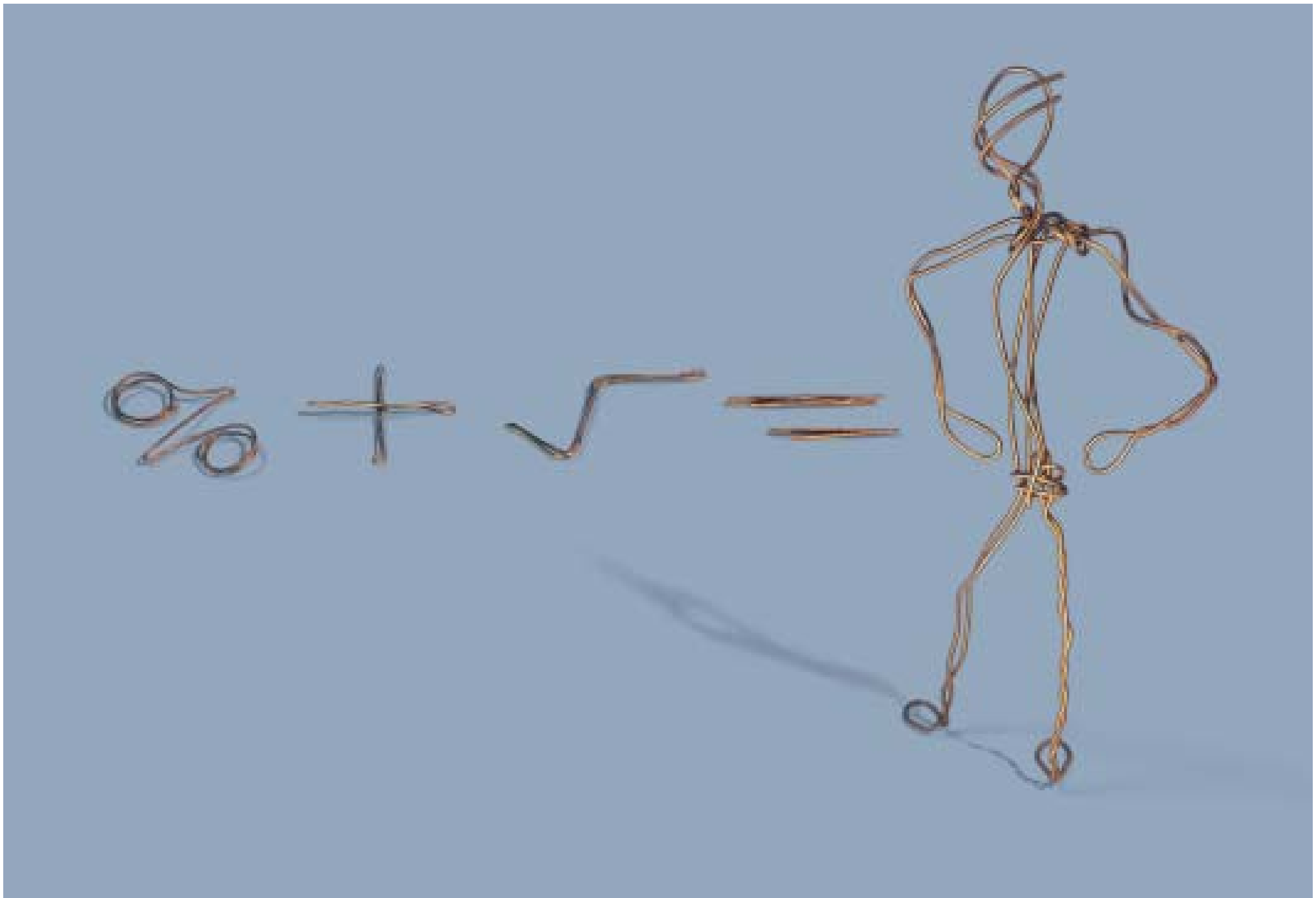

FINANCIAL REVIEW FISCAL 2003

Management's Discussion and Analysis of Financial Condition and Results of Operations

This Annual Report contains certain forward-looking statements and information relating to us that are based on the beliefs of and assumptions made by management, as well as information currently available to management. When used in this document, the words "anticipate," "believe," "estimate," "expect," and similar expressions are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties, and assumptions. These risks are described in documents we file with the Securities and Exchange Commission, including our most recent reports on Form 10-K, Form 8-K, Form 10-Q and amendments thereto. Should one or more of these risks or uncertainties occur, or should our assumptions prove incorrect, actual results may vary materially from those described in this document as anticipated, believed, estimated, or expected. We do not intend to update these forward-looking statements except as may be required by law.

NATURE OF BUSINESS

We license our software products directly to customers as well as to distribution partners, resellers, and VARs. We generate revenues from the following sources: license fees — licensing our products on a right-to-use basis; maintenance fees — providing customer technical support and product enhancements; and service fees — providing professional services such as product implementation, consulting, and education services. The timing and amount of fees recognized as revenue during a period are determined individually by license agreement, based on its duration and specific terms.

In October 2000, we announced the shift to our existing Business Model that offers customers greater flexibility to change how they can use and license our software products as their businesses change. This flexibility reduces the customers' risks and up-front financial commitment associated with traditional software licensing models. Under our Business Model, customers can better manage the duration and dollar value of their software licenses. Our Business Model provides customers with the flexibility to subscribe to software under month-to-month licenses or fix their costs by committing to longer-term agreements. Our Business Model also permits customers to change their software mix as their business and technology needs change. This includes the right to receive software in the future within defined product lines for no additional fee. We believe our Business Model improves the predictability of our revenue streams, since we recognize license revenue evenly on a monthly basis, or "ratably," over the life of the license agreement. Under our prior business model, and as is common practice in the software industry, most of these license fees were recorded up-front at the time the license agreement was signed and the software was delivered.

Under our Business Model, the portion of the license revenue that is not recognized currently creates what we refer to as "deferred subscription revenue." This deferred subscription revenue will be recognized as revenue evenly on a monthly basis over the terms of the license agreements. When recognized, this revenue will be recorded on the "Subscription revenue" line item on our Consolidated Statements of Operations. If a customer pays for software prior to the recognition of revenue, the amount deferred is reported as a liability titled "Deferred subscription revenue (collected)" on our Consolidated Balance Sheets. Otherwise, deferred subscription revenue is reported as a reduction of the accounts receivable (the contractual amount due from the customer).

PERFORMANCE INDICATORS

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

	For the Year Ended March 31,			
	2003	2002	CHANGE	% CHANGE
	(dollars in millions)			
Subscription revenue	$1,414	$ 827	$ 587	71%
Total revenue	3,116	2,964	152	5%
Subscription revenue as a percent of total revenue	45%	28%	—	61%
New deferred subscription revenue	$1,883	$ 2,178	$(295)	(14%)
Weighted-average license agreement duration in years	2.81	3.67	(.86)	(23%)
Cash from operations	$1,309	$ 1,251	$ 58	5%
Net loss	(267)	(1,102)	835	76%

	As of March 31,			
	2003	2002	CHANGE	% CHANGE
	(dollars in millions)			
Total debt	$3,126	$ 3,842	$(716)	(19%)

Subscription Revenue — Subscription revenue is the ratable revenue recognized in a period from amounts previously recorded as deferred subscription revenue. Subscription revenue also includes revenue earned from monthly licenses. The larger the ratio of subscription revenue to total revenue, the more predictable our revenue streams become. A change in subscription revenue is correlated with a change in deferred subscription revenue, and therefore, since we expect an increase in deferred subscription revenue, we also expect subscription revenue to increase in fiscal year 2004.

Total Revenue — Total revenue is the sum of all revenue line items. Although subscription revenue continues to increase, certain other revenue line items in our Consolidated Statements of Operations are decreasing. These decreases were generally expected. We expected decreases in the Maintenance, Financing fees, and Professional services line items as described in further detail below. Software fees and other, which largely represents software revenues from our channel and OEM business, decreased more than we expected in fiscal year 2003. For a more complete description of the reasons why each revenue item increased or decreased, refer to the Results of Operations section below.

New Deferred Subscription Revenue — New deferred subscription revenue represents the total undiscounted incremental value (license agreement value) of all new software licenses sold in the current period by our direct sales force. New deferred subscription revenue excludes the value associated with license agreements for maintenance only as well as professional service arrangements. This new deferred subscription revenue is what we expect to collect from our customers. This amount is recorded into subscription revenue evenly on a monthly basis over the applicable software license term. These license agreements represent binding payment commitments from customers over periods generally up to three years.

Weighted-Average License Agreement Duration in Years — The weighted-average license agreement duration in years represents the sum of the duration of all software licenses executed during a fiscal year, weighted by each individual software license's contract value. The calculation for fiscal year 2003 of 2.81 years was derived from the following quarterly new deferred subscription revenue amounts recorded and weighted-average durations in years, respectively: Q1 — $322 million, 2.75 years; Q2 — $394 million, 2.80 years; Q3 — $538 million, 2.80 years; and Q4 — $629 million, 2.85 years. For fiscal year 2002, the calculation of 3.67 years was derived from the following quarterly new deferred subscription revenue amounts recorded and weighted-average durations in years, respectively: Q1 — $502 million, 4.00 years; Q2 — $466 million, 3.75 years; Q3 — $554 million, 3.50 years; and Q4 — $656 million, 3.50 years. We believe license agreement durations averaging approximately three years, which is lower than the historical duration of our contracts, increase the value the customer receives from our software licenses by giving customers the flexibility to vary their software mix as their needs change. We also believe this flexibility improves our customer relationships and encourages greater accountability by the Company to each of our customers, which in turn may lead to increased future sales opportunities.

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

Net Loss — Under our Business Model, revenue is deferred and recognized evenly on a monthly basis whereas under the prior business model, license revenue was generally recognized up-front. However, costs continued to be expensed as incurred. As a result, we have experienced net losses. As we increase revenue and maintain our cost structure, we anticipate returning to a net profit. The decrease in net loss from fiscal year 2002 to 2003 was attributable to, among other things, our adoption of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," whereby we no longer amortize goodwill. Goodwill amortization was approximately $449 million in fiscal year 2002.

Total Debt — Total debt includes the current and long-term portions of our debt obligations. We have made a strategic decision to reduce our overall debt level and have achieved a $1.3 billion reduction during the past two fiscal years.

Refer to the discussion of our Results of Operations and Risk Factors herein and the Notes to the Consolidated Financial Statements for further discussion of the items discussed in this section (Performance Indicators).

Results of Operations

TOTAL REVENUE

Total revenue for the fiscal year ended March 31, 2003 increased $152 million from the fiscal year ended March 31, 2002 to $3.116 billion. This increase was primarily due to the transition to our Business Model that began during the third quarter of fiscal year 2001. This transition resulted in an increase in subscription revenue from the prior fiscal year, partially offset by a decrease in maintenance and financing fees, as described below. Professional services and software fees and other revenue decreased for fiscal year 2003 as described below. In addition, there was a positive impact to revenue of $81 million compared to fiscal year 2002 due to fluctuations in foreign currency exchange rates. This foreign exchange rate impact was fully offset by the impact of the sale of our interBiz™ unit in April 2002, which had contributed approximately $82 million of revenue in fiscal year 2002. Cautious capital spending by our existing and potential customers associated with weak conditions in the overall economy and the IT industry adversely impacted bookings of new license agreements and revenue in fiscal year 2003.

Total revenue for the fiscal year ended March 31, 2002 decreased $1.226 billion from the fiscal year ended March 31, 2001 to $2.964 billion. This decrease was primarily due to the transition to our Business Model beginning in the third quarter of fiscal year 2001, which resulted in a decrease in license fees recognized up-front compared to the prior year period, partially offset by new subscription revenue. The period that license agreements were recorded prior to our Business Model is deemed the "prior business model." In addition, apprehension toward capital spending by our existing and potential customers due to weakened conditions in the overall economy and the technology industry also impacted fiscal year 2002 revenue. During fiscal year 2001, approximately $1.429 billion was recognized as revenue up-front at license agreement signing under our prior business model and was included in the "Software fees and other" line item on the Consolidated Statements of Operations. The total revenue decrease was also attributable to a decline in professional services revenue of $222 million, as described below. Although the transition to our Business Model and weaker economic conditions contributed to the revenue decrease, quantification of the impact that each of these factors had on such decrease is not readily determinable.

SUBSCRIPTION REVENUE

Subscription revenue for the fiscal year ended March 31, 2003 increased $587 million from fiscal year 2002 to $1.414 billion. Subscription revenue represents the ratable portion of revenue recognized on software license agreements entered into under our Business Model. Many of the licenses recorded between October 2000, when our Business Model began, and the end of fiscal year 2002, have terms of three years or greater. Therefore, many did not expire during fiscal year 2003 and continue to contribute to subscription revenue on a monthly, ratable basis. As a result, subscription revenue for fiscal year 2003 includes the ratable recognition of bookings recorded in fiscal year 2003, as well as most of the bookings recorded between October 2000 and the end of fiscal year 2002. This is the main reason for the increase in subscription revenue in fiscal year 2003 versus fiscal year 2002. During fiscal years 2003 and 2002, we added new deferred subscription revenue of $1.883 billion and $2.178 billion, respectively. The approximate duration of license agreements executed under our Business Model in fiscal years 2003 and 2002 was a weighted-average life of approximately 2.81 years and 3.67 years, respectively. Thus, annualized deferred subscription revenue, which represents the total value of all new software license agreements signed during a period divided by the weighted-average duration of all such license agreements recorded during the same period, increased approximately $77 million, or 13%, for fiscal year 2003 over the prior fiscal year to $670 million. Subscription revenue also increased as a result of how we record maintenance revenue under our Business Model compared to the prior method. Under our prior business model, maintenance revenue was separately identified and was recorded to the "Maintenance" line item on the Consolidated Statements of Operations. Under our Business Model, bundled maintenance is not separately identified in our customers' license agreements and, therefore, is included within the "Subscription revenue" line item on the Consolidated Statements of Operations. The quantification of the impact that each of these factors had on the increase in subscription revenue is not readily determinable.

Subscription revenue for the fiscal year ended March 31, 2002 increased $768 million from the prior fiscal year to $827 million. The increase was primarily due to the introduction of our Business Model that began in the third quarter of fiscal year 2001. Fiscal year 2002 included subscription revenue earned from software license agreements that were completed during the 12 months of fiscal year 2002. These license agreements did not contribute to revenue in fiscal year 2001. During fiscal years 2002 and 2001, we added new deferred subscription revenue of $2.178 billion and $1.934 billion, respectively.

SOFTWARE FEES AND OTHER

Software fees and other primarily consists of royalties and revenue related to distribution and OEM partners. Revenue related to distribution partners and OEMs is sometimes referred to as our "indirect" or "channel" revenue. For the fiscal year ended March 31, 2003, software fees and other decreased $37 million from the fiscal year ended March 31, 2002, to $395 million. The decrease was primarily due to a difficult economic and competitive environment.

Software fees and other decreased during fiscal year 2002 by $1.449 billion from the fiscal year ended March 31, 2001, to $432 million. During fiscal year 2001, the portion of revenue that we recognized up-front at the signing of a new license agreement under our prior business model of approximately $1.429 billion was recorded to the "Software fees and other" line item on the Consolidated Statements of Operations. During the third quarter of fiscal year 2001, we switched to our Business Model and no longer recorded this revenue up-front.

MAINTENANCE

As expected, maintenance revenue for fiscal years 2003 and 2002 decreased $189 million and $129 million, respectively, from the respective prior fiscal years to $769 million and $958 million, respectively. The decrease in maintenance revenue for both years is attributable to additional license agreements signed under our Business Model where bundled maintenance revenue is now included with license revenue, which is reported in the "Subscription revenue" line item on the Consolidated Statements of Operations. The combined maintenance and license revenue on these types of license agreements is recognized on a monthly basis ratably over the term of the agreement. The decrease is partially offset by new maintenance revenue earned from customers who elect optional maintenance at the expiration of their non-term-based license agreements. The quantification of the impact that each of these factors had on the decrease in maintenance revenue is not readily determinable.

FINANCING FEES

Financing fees result from the initial discounting to present value of product sales with extended payment terms under our prior business model, which required up-front revenue recognition. This discount initially reduced the related installment accounts receivable, and was referred to as "unamortized discounts." Over the life of the applicable license agreement, the related unamortized discount is amortized and reported as financing fees. Under our Business Model, additional unamortized discounts are no longer recorded, since we do not account for the present value of product sales as earned revenue when license agreements are signed. As expected, for fiscal years 2003 and 2002, financing fees decreased $154 million and $194 million, respectively, from the prior fiscal years to $290 million and $444 million, respectively. The decrease for both years is attributable to the discontinuance of offering license agreements under our prior business model.

PROFESSIONAL SERVICES

Professional services revenue for fiscal year 2003 decreased $55 million from fiscal year 2002 to $248 million. The decrease was partially attributable to the divestiture of our interBiz unit in April 2002, which generated approximately $20 million of professional services revenue in fiscal year 2002. The decrease was also a result of the weak spending environment that affected the IT service sector in general, as well as our continued shift in focus to professional services engagements that are focused solely on our software products. Quantification of the impact that these factors had on the decrease in professional services revenue is not readily determinable.

Professional services revenue for fiscal year 2002 decreased $222 million from fiscal year 2001 to $303 million, primarily as a result of our shift in focus to professional services engagements that are centered around our products. The decrease was also attributable to our divestiture in October 2000 of Sterling's Federal Systems Group (FSG), a provider of professional services to governmental agencies, which contributed approximately $94 million to professional services revenue in fiscal year 2001.

TOTAL REVENUE BY GEOGRAPHY

Revenue in the United States represented approximately 58% of overall revenue for fiscal year 2003, as compared to approximately 62% for fiscal year 2002. International revenue increased $185 million, or 17%, in fiscal year 2003 as compared with fiscal year 2002. Results in fiscal year 2002 included our interBiz operations, which we divested in April 2002. Those operations contributed approximately $50 million and $32 million of revenue in the prior fiscal year from the United States and international regions, respectively. The increases in international revenue were primarily attributable to an improvement in our business in Europe and Asia, as well as the $81 million positive impact due to fluctuations in foreign currency exchange rates.

Revenue in the United States represented 62% of overall revenue for fiscal year 2002, as compared to 65% for fiscal year 2001. Consistent with the reasons for the overall decrease in revenue, international revenue decreased $343 million, or 23%, in fiscal year 2002 as compared with fiscal year 2001.

Price changes did not have a material impact in fiscal years 2003, 2002, or 2001.

AMORTIZATION OF CAPITALIZED SOFTWARE COSTS

Amortization of capitalized software costs consists of the amortization of both purchased software and capitalized, internally generated software development costs. Internally generated capitalized software costs are related to new products and significant enhancements to existing software products that have reached the technological feasibility stage. Amortization of capitalized software costs for fiscal year 2003 decreased $17 million from the prior fiscal year to $470 million and for fiscal year 2002, decreased $5 million from fiscal year 2001 to $487 million. We recorded amortization of purchased software products for the fiscal years ended March 31, 2003, 2002, and 2001 of $435 million, $455 million, and $467 million, respectively. We recorded amortization of capitalized internally generated software development costs for the fiscal years ended March 31, 2003, 2002, and 2001 of $35 million, $32 million, and $25 million, respectively. The total decrease for both years was due primarily to certain purchased software assets becoming fully amortized.

COST OF PROFESSIONAL SERVICES

Cost of professional services consists primarily of the personnel-related costs associated with providing professional services and training to customers. Cost of professional services for fiscal year 2003 decreased $46 million from fiscal year 2002 to $237 million. This decrease was due primarily to a reduction in professional service engagements and related personnel costs.

Cost of professional services for fiscal year 2002 decreased $180 million from fiscal year 2001 to $283 million. This decrease was due primarily to a reduction in professional service engagements and related personnel costs, including the divestiture of FSG, which contributed approximately $84 million of such expenses in the prior year.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A)

SG&A expenses for fiscal year 2003 decreased $296 million compared to fiscal year 2002 to $1.463 billion. The decrease was attributable to our emphasis on overall cost control measures, including a reduction in personnel and personnel-related costs. During fiscal year 2003, we had an average of approximately 16,000 employees. This represents a decrease of approximately 1,500 employees from our fiscal year 2002 average of 17,500 employees, some of which were personnel costs that impacted other line items. The reduction in headcount consisted of a reduction in workforce of approximately 900 employees in October 2001, approximately 725 employees from the divestiture of certain assets of our interBiz operations in April 2002, and approximately 80 employees from the divestiture of our banking product group in October 2002. This reduction was partially offset by headcount additions in the current year primarily due to the opening of a new call center for telemarketing efforts. Our interBiz unit contributed approximately $81 million of SG&A expenses in the prior fiscal year, the majority of which were personnel costs. The decrease in SG&A expenses was also attributable to a reduction of the bad debt expense of $151 million, which relates to ongoing operations, and $14 million of bad debt expense that was recorded in fiscal year 2002 prior to the divestiture of the interBiz unit in April 2002. This reduction reflects a decrease in installment accounts receivable related to the prior business model (see the Accounts Receivable section of Critical Accounting Policies and Business Practices for additional information). In fiscal year 2002, we recorded a $28 million capitalized software impairment charge. This amount was previously recorded as part of the fiscal year 2002 total impairment charge of $59 million related to the sale of interBiz.

SG&A expenses for fiscal year 2002 decreased $361 million compared to fiscal year 2001 to $1.759 billion. The decrease was largely attributable to our emphasis on overall cost control measures, including a reduction in personnel and personnel-related costs, such as reduced travel expenses, in connection with a reduction in our headcount of approximately 3,000 employees over the prior fiscal year. In fiscal year 2001, we recorded a charge associated with the bankruptcy of Inacom Corporation of approximately $31 million.

PRODUCT DEVELOPMENT AND ENHANCEMENTS

Product development and enhancement expenditures, also referred to as research and development, for fiscal year 2003 decreased $14 million compared to fiscal year 2002 to $664 million. As a percentage of operating expenses, net research and development expenditures increased to approximately 20% in the current fiscal year, compared to approximately 19% in the prior fiscal year, excluding the amortization of goodwill and assembled workforce from fiscal year 2002 operating expenses. We continued to focus on product development and enhancements, emerging technologies such as Linux, wireless and web services, and a broadening of our enterprise product offerings.

Product development and enhancement expenditures for fiscal year 2002 decreased $17 million from fiscal year 2001 to $678 million. The decrease was a result of general cost containment, primarily related to personnel costs. We continued our focus on product development and enhancements, with an emphasis on adapting and enhancing products within our focus areas, particularly for the distributed processing and IBM's z/OS environments, as well as a broadening of our enterprise product offerings.

COMMISSIONS AND ROYALTIES

Commissions and royalties for fiscal year 2003 decreased $24 million from fiscal year 2002 to $251 million. This decrease was due primarily to an $11 million reduction in royalties paid to third parties resulting from continued internal product development and enhancements. This decrease was also due to the reduction in sales and related commission expense associated with the divestiture of certain assets of our interBiz unit. That unit contributed approximately $9 million of such expenses in fiscal year 2002.

Commissions and royalties for fiscal year 2002 decreased $33 million from fiscal year 2001 to $275 million. Commissions and royalties expense as a percentage of revenue increased due to the lower revenue achievement associated with our transition to our Business Model without an associated change in the overall sales compensation. The decrease in commissions and royalties expense was principally the result of a decline in license agreement bookings associated with the weaker economic environment for IT spending.

DEPRECIATION AND AMORTIZATION OF GOODWILL AND OTHER INTANGIBLE ASSETS

Depreciation and amortization of goodwill and other intangible assets for fiscal year 2003 decreased $467 million from fiscal year 2002 to $142 million. The decrease was primarily a result of adopting SFAS No. 142 in April 2002. With SFAS No. 142, a non-amortization fair value based impairment approach is used to account for goodwill and certain intangible assets (see Note 1 to the Consolidated Financial Statements). Upon adoption of SFAS No. 142, assembled workforce no longer met the definition of an identifiable intangible asset and, therefore, must be reclassified to goodwill and follow the non-amortization impairment approach. As a result, the assembled workforce net balance of $79 million as of March 31, 2002 was reclassified to goodwill. Prior to the adoption of SFAS No. 142, we amortized $449 million and $13 million of goodwill and the assembled workforce intangible asset, respectively, during fiscal year 2002. On a per share basis, we recorded $.78 and $.02 of goodwill and the assembled workforce intangible asset amortization, respectively, during fiscal year 2002.

Depreciation and amortization of goodwill and other intangible assets for fiscal year 2002 decreased $9 million from fiscal year 2001 to $609 million. The decrease in depreciation and amortization of goodwill and other intangible assets was a result of certain intangible assets from past acquisitions becoming fully amortized.

GOODWILL IMPAIRMENT

During the fourth quarter of fiscal year 2003, we performed our annual goodwill impairment review under SFAS No. 142 and recorded a non-cash goodwill impairment charge of $80 million related to our professional services organization. The impairment is attributable to our lower than expected results and our projected performance. See the Critical Accounting Policies and Business Practices section for additional information.

Under the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," we recorded a non-cash impairment charge of $59 million during the fourth quarter of fiscal year 2002. The charge related to the sale of certain assets, under the name interBiz, to SSA in April 2002. The $59 million consisted of a $31 million goodwill impairment charge recorded to the "Goodwill impairment" line item on the Consolidated Statements of Operations and a $28 million capitalized software impairment charge recorded to the "SG&A" line item on the Consolidated Statements of Operations.

1995 STOCK PLAN

In fiscal year 2001, we recorded a gain of $184 million related to the settlement of the 1995 Key Employee Stock Ownership Plan (1995 Stock Plan) litigation. Under the terms of the settlement, the 1995 Stock Plan participants returned 4.5 million shares of CA stock to the Company.

NET INTEREST EXPENSE

Net interest expense for fiscal year 2003 decreased $55 million as compared to fiscal year 2002 to $172 million. Of the change, $38 million was due to the decrease in average debt outstanding, $14 million was due to the decrease in the average variable interest rate, and $3 million was the result of gains from the early retirement of portions of our outstanding debt. See Liquidity and Capital Resources and New Accounting Pronouncements regarding SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" for additional information.

Net interest expense for fiscal year 2002 decreased $117 million as compared to fiscal year 2001 to $227 million. Of the change, $59 million was due to the decrease in average debt outstanding and $58 million was due to the decrease in the average variable interest rate.

OPERATING MARGINS

For fiscal year 2003, our pretax loss was $363 million as compared to a pretax loss of $1.385 billion in fiscal year 2002. The decrease in pretax loss was primarily related to:

- An increase in revenue of $152 million;
- A reduction in expenses of $408 million, or 10%, for fiscal year 2003, excluding the amortization of goodwill and assembled workforce in fiscal year 2002; and
- The elimination of amortization of goodwill and the assembled workforce intangible asset as of April 1, 2002, in accordance with the adoption of SFAS No. 142, which totaled $462 million in fiscal year 2002.

INCOME TAX BENEFIT

Our consolidated effective tax rate (benefit) was 26% and 20% for fiscal years 2003 and 2002, respectively. The increased effective tax rate reflects the goodwill and the assembled workforce intangible assets that were amortized for financial statement purposes but not for tax purposes prior to fiscal year 2003, net of the fiscal year 2003 goodwill impairment charge. Beginning with the adoption of SFAS No. 142, these assets are no longer amortized for either financial statement or tax purposes. Our effective tax rate (benefit) is below the statutory rate in fiscal year 2003 primarily due to the non-tax deductibility of the goodwill impairment charge. Our effective tax rate (benefit) is below the statutory rate in fiscal year 2002 primarily due to the non-tax deductibility of goodwill amortization.

STOCK OPTION EXPENSE

We currently maintain stock option plans and restricted stock award plans for fiscal year 2003 and all prior years. We accounted for these plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25) and related interpretations. No stock-based employee compensation expense for stock options was reported in the Consolidated Statements of Operations for the years ended March 31, 2003, 2002, and 2001, as all stock options granted had an exercise price equal to or above the fair market value of the underlying common stock on the date of grant. Effective April 1, 2003, we have adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123." We will recognize compensation expense related to all option awards granted after March 31, 2003 in the Consolidated Statements of Operations. We will continue to disclose the effect of option awards granted prior to March 31, 2003 on a pro-forma basis in the Notes to our Consolidated Financial Statements.

Beginning in fiscal year 2004, we adopted the fair value-based method of recording stock options outlined in SFAS No. 123. As a result of evolving practice, stock options will be considered employee compensation expense, and therefore it is appropriate that the computed value will be recorded in our financial results. We have historically used the Black-Scholes option-pricing model to determine the fair value of each option grant. The Black-Scholes model includes assumptions regarding dividend yields, expected volatility, expected lives, and risk-free interest rates. These assumptions reflect our best estimates, but these items involve uncertainties based on market conditions generally outside of our control.

The following table sets forth the various estimated effects on future earnings (loss) per share as a result of our adoption of SFAS No. 123 using the fair market value of our stock as of March 31, 2003 (base price). For purposes of this table, we have assumed 6.4 million option shares are awarded in the last month of each fiscal year, which is consistent with fiscal year 2003, but may not be indicative of future option grants approved by the Board of Directors. We have assumed all other variables to be the same as those used for fiscal year 2003, as detailed in Note 1 of the Consolidated Financial Statements.

			Year Ended March 31,		
ASSUMED EXERCISE PRICE OF STOCK OPTION AWARD	2004(1)	2005	2006	2007	2008
$13.66 (base price)	$ —	$ (.02)	$ (.05)	$ (.07)	$ (.07)
$10.25 (25% below base price)	—	(.02)	(.04)	(.05)	(.05)
$17.08 (25% above base price)	—	(.03)	(.06)	(.09)	(.09)
$20.49 (50% above base price)	—	(.04)	(.07)	(.11)	(.11)

(1) As a result of the assumption of issuing stock options in the last month of the fiscal year, the compensation expense is expected to be negligible.

The above table provides sensitivity analysis related to the granting of stock options and the associated expense incurred over the vesting period of the option. The assumptions used may vary significantly, which can result in a material change to the amounts presented above.

Selected Quarterly Information

			(in millions, except per share amounts)		
2003 QUARTERLY RESULTS	JUNE 30	SEPTEMBER 30	DECEMBER 31	MARCH 31(2)	TOTAL
Revenue	$ 765	$ 772	$ 778	$ 801	$ 3,116
Percent of annual revenue	24%	25%	25%	26%	100%
Net loss(1)	$ (65)	$ (52)	$ (44)	$ (106)	$ (267)
— Basic loss per share(1)	(0.11)	(0.09)	(0.08)	(0.18)	(0.46)
— Diluted loss per share(1)	(0.11)	(0.09)	(0.08)	(0.18)	(0.46)
2002 QUARTERLY RESULTS	**JUNE 30**	**SEPTEMBER 30**	**DECEMBER 31**	**MARCH 31(3)**	**TOTAL**
Revenue	$ 712	$ 733	$ 747	$ 772	$ 2,964
Percent of annual revenue	24%	25%	25%	26%	100%
Net loss(1)	$ (342)	$ (291)	$ (231)	$ (238)	$(1,102)
— Basic loss per share(1)	(0.59)	(0.50)	(0.40)	(0.41)	(1.91)
— Diluted loss per share(1)	(0.59)	(0.50)	(0.40)	(0.41)	(1.91)

(1) Our adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," had the effect of eliminating the amortization of goodwill and certain other intangible assets prospectively beginning on April 1, 2002. See Note 1 to the Consolidated Financial Statements for additional information. In fiscal year 2002, we amortized on a quarterly basis goodwill and assembled workforce in the aggregate amount of $462 million ($.80 per share).

(2) Includes an after-tax charge of $80 million related to an impairment of goodwill. See Note 1 to the Consolidated Financial Statements for additional information.

(3) Includes an after-tax charge of $49 million related to an impairment of assets sold in April 2002.

LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents, and marketable securities totaled $1.512 billion on March 31, 2003, an increase of $332 million from the March 31, 2002 balance of $1.180 billion. Net debt repayments approximated $700 million during fiscal year 2003. We used cash on hand and cash from operations to repay more than $1.2 billion in outstanding debt, which was offset by the issuance of $460 million of new, unsecured 1.625% Convertible Senior Notes. Additionally, we repurchased approximately $106 million in treasury stock in fiscal year 2003. Cash generated from operations for fiscal year 2003 was $1.309 billion, an increase of $58 million from the prior year's cash from operations of $1.251 billion. Cash from operations was favorably impacted this fiscal year compared with the prior fiscal year by savings in operating costs.

As of March 31, 2003 and 2002, our debt arrangements consisted of the following:

	2003		2002	
DEBT ARRANGEMENTS	MAXIMUM AVAILABLE	OUTSTANDING BALANCE	MAXIMUM AVAILABLE	OUTSTANDING BALANCE
		(in millions)		
1999 Revolver	$400	$ 350	$1,000	$ 600
1999 Term Loan	—	—	—	600
2002 Revolver	440	—	—	—
Commercial Paper	400	—	1,000	82
6.770% Senior Notes due April 2003	—	64	—	128
6.250% Senior Notes due April 2003	—	412	—	575
6.375% Senior Notes due April 2005	—	825	—	825
5.000% Convertible Senior Notes due March 2007	—	660	—	660
6.500% Senior Notes due April 2008	—	350	—	350
1.625% Convertible Senior Notes due December 2009	—	460	—	—
International line of credit	3	—	51	15
Other	—	5	—	7
Total		$3,126		$3,842

2002 Revolver

On December 31, 2002, we entered into a new, unsecured, bank revolving credit facility (the 2002 Revolver) of $400 million. During the quarter ending March 31, 2003, the 2002 Revolver was increased to $440 million, and then in April 2003 it was further increased to a total capacity of $460 million. The 2002 Revolver expires January 31, 2005, and no amount was drawn as of March 31, 2003. The interest rates on the 2002 Revolver are determined based on a ratings grid, which applies a margin to the prevailing London InterBank Offered Rate (LIBOR). We capitalized the initial transaction fees associated with the 2002 Revolver, which totaled approximately $6 million. We are amortizing these fees over the term of the 2002 Revolver in the "Interest expense, net" line item on the Consolidated Statements of Operations.

1999 Revolver and 1999 Term Loan

Effective December 31, 2002, the amount that may be outstanding at any time under the existing $1 billion, four-year revolving credit facility (the 1999 Revolver), which expired on May 30, 2003, was reduced to $400 million. As of March 31, 2003, $350 million was drawn under the 1999 Revolver. The $600 million outstanding balance as of March 31, 2002, on the then-existing $2 billion four-year term loan (the 1999 Term Loan), was repaid in full during fiscal year 2003. On December 31, 2002 we repaid $257 million of the balance of the 1999 Term Loan in advance of the first quarter of fiscal year 2004 due date. The interest rates on the 1999 Revolver and the 1999 Term Loan are determined based on a ratings grid, which applies a margin to the prevailing LIBOR. We do not intend to renew the 1999 Revolver upon its expiration based upon our current view that the new, unsecured 2002 Revolver of $460 million, which was undrawn as of March 31, 2003, should be sufficient to meet future needs.

Commercial Paper

During fiscal year 2003, we reduced our commercial paper (CP) program from $1 billion to $400 million. As of March 31, 2003, there were no borrowings outstanding under the CP program. We expect any future outstanding borrowings under the CP program will be supported by cash and marketable securities on hand and undrawn amounts available under the 2002 Revolver.

1.625% Convertible Senior Notes

We also utilize other financial markets in order to maintain our broad sources of liquidity. In fiscal year 2003, we issued $460 million of unsecured 1.625% Convertible Senior Notes (1.625% Notes), due December 15, 2009, in a transaction pursuant to Rule 144A of the Securities Act of 1933 (Rule 144A). The 1.625% Notes are senior unsecured indebtedness and rank equally with all existing senior unsecured indebtedness. Concurrent with the issuance of the 1.625% Notes, we also entered into call spread repurchase option transactions (1.625% Notes Call Spread). The entire 1.625% Notes Call Spread purchase price of $73 million was charged to Stockholders' Equity. Under the terms of the 1.625% Notes Call Spread, we have the option to receive (i) outstanding shares equivalent to the number of shares that may be issued if all of the 1.625% Notes are converted into shares (22.954 million shares) upon payment of an exercise price of $20.04 per share (aggregate of $460 million); or (ii) a net cash settlement, net share settlement or a combination, whereby we will receive cash or shares equal to the increase in the market value of the 22.954 million shares from the aggregate value at the $20.04 exercise price (aggregate of $460 million), subject to the upper limit of $30.00 discussed below. The 1.625% Notes Call Spread is designed to partially mitigate the potential dilution from conversion of the 1.625% Notes, depending upon the market price of our common stock at such time. The 1.625% Notes Call Spread can be exercised during December 2009 at an exercise price of $20.04 per share. To limit the cost of the 1.625% Notes Call Spread, an upper limit of $30.00 per share has been set such that if the price of the common stock is above that limit at the time of exercise, the number of shares eligible to be purchased will be proportionately reduced based on the amount the common share price exceeds $30.00 at the time of exercise. We capitalized the initial transaction fees associated with the 1.625% Notes, which totaled approximately $12 million. These fees are being amortized over the period through maturity of the 1.625% Notes in the "Interest expense, net" line item on the Consolidated Statements of Operations.

5% Convertible Senior Notes

In fiscal year 2002, we issued $660 million of unsecured 5% Convertible Senior Notes (5% Notes), due March 15, 2007, in a transaction pursuant to Rule 144A. The 5% Notes are senior unsecured indebtedness and rank equally with all existing senior unsecured indebtedness. The Company capitalized the initial transaction fees associated with the 5% Notes, which totaled approximately $16 million. These fees are being amortized over the period through maturity of the 5% Notes in the "Interest expense, net" line item on the Consolidated Statements of Operations. Concurrent with the issuance of the 5% Notes, we entered into call spread repurchase option transactions (5% Notes Call Spread). The option purchase price of the 5% Notes Call Spread was $95 million. The entire purchase price of $95 million was charged to Stockholders' Equity. Under the terms of the 5% Notes Call Spread, we have the option to purchase outstanding shares equivalent to the number of shares that may be issued if all the 5% Notes are converted into shares (27.116 million shares), thereby mitigating dilution to stockholders. The 5% Notes Call Spreads are designed to partially mitigate the potential dilution from conversion of the 5% Notes, depending upon the market price of our common stock at such time. The 5% Notes Call Spread can be exercised at the three-year anniversary of the issuance of the 5% Notes at an exercise price of $24.83 per share. To limit the cost of the 5% Notes Call Spread, an upper limit of $36.60 per share has been set such that if the price of the common stock is above that limit at the time of exercise, the number of shares eligible to be purchased will be proportionately reduced based on the amount the common share price exceeds $36.60 at the time of exercise.

Fiscal Year 1999 Senior Notes

In fiscal year 1999, we issued $1.750 billion of unsecured Senior Notes in a transaction pursuant to Rule 144A. Amounts borrowed, rates, and maturities for each issue were $575 million at 6.25% due April 15, 2003, $825 million at 6.375% due April 15, 2005, and $350 million at 6.5% due April 15, 2008. During fiscal year 2003, we repurchased $163 million of the 6.25% Senior Notes due April 15, 2003 at a discount. The repurchases resulted in a total gain of approximately $3 million. The gain was included in the "Interest expense, net" line item on the Consolidated Statements of Operations. As of March 31, 2003, $412 million, $825 million and $350 million of our 6.25%, 6.375% and 6.5% Senior Notes, respectively, remained outstanding. The balance of the 6.25% Senior Notes was fully repaid in April 2003.

Fiscal Year 1997 Senior Notes

In fiscal year 1997, $320 million of unsecured 6.77% Senior Notes were issued in a private transaction pursuant to an exemption from registration under the Securities Act of 1933. The 6.77% Senior Notes call for annual repayment of $64 million each April, commencing in April 1999 with final payment in April 2003. As of March 31, 2003, $64 million was outstanding under the 6.77% Senior Notes. The balance of the 6.77% Senior Notes was fully repaid in April 2003.

International Line of Credit

An unsecured and uncommitted multi-currency line of credit is available to meet short-term working capital needs for subsidiaries operating outside the United States. This line totals $3 million, and no amount was drawn under this credit line as of March 31, 2003.

Other Matters

We pre-fund contributions to our broad-based, employee defined contribution retirement plan annually each March. Pre-funded contributions totaled $45 million and $17 million for the years ended March 31, 2003 and 2002, respectively.

Subsequent to March 31, 2003, we received $17 million in proceeds related to the sale of fixed assets. Since the carrying value of the fixed assets was zero, the entire amount resulted in a gain that was recorded in the quarter ended June 30, 2003.

Debt ratings for our senior unsecured notes and our bank credit facilities are BBB+ and Baa2 from Standard & Poor's and Moody's Investors Service, respectively. Our CP program is rated A-2 from Standard & Poor's and P-2 from Moody's. Peak borrowings under all debt facilities during fiscal year 2003 totaled approximately $3.842 billion, with a weighted-average interest rate of 5.39%.

As of March 31, 2003, the cumulative number of shares purchased under our various open market common stock repurchase programs since fiscal year 1991 was 178 million, including 8 million shares purchased in fiscal year 2003. The remaining number of shares authorized for repurchase is approximately 22 million.

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

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

OFF-BALANCE SHEET ARRANGEMENTS

We have commitments to invest approximately $5 million in connection with joint venture agreements. In prior fiscal years, we sold individual accounts receivable under the prior business model to an external third-party subject to certain recourse provisions. The amounts subject to recourse approximated $141 million and $218 million as of March 31, 2003 and 2002, respectively. Other than the commitments and indemnification described above, we do not have any other off-balance sheet arrangements with unconsolidated entities or related parties and, accordingly, off-balance sheet risks to our liquidity and capital resources from unconsolidated entities are limited.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

We have commitments under certain contractual arrangements to make future payments for goods and services. These contractual arrangements secure the rights to various assets and services to be used in the future in the normal course of business. For example, we are contractually committed to make certain minimum lease payments for the use of property under operating lease agreements. In accordance with current accounting rules, the future rights and related obligations pertaining to such contractual arrangements are not reported as assets or liabilities on our Consolidated Balance Sheets. We expect to fund these contractual arrangements with cash generated from operations in the normal course of business.

The following table summarizes our contractual arrangements at March 31, 2003, and the timing and effect that such commitments are expected to have on our liquidity and cash flow in future periods. In addition, the table summarizes the timing of principal payments on noncurrent debt as reported on our Consolidated Balance Sheet as of March 31, 2003.

		Payments Due by Period			
CONTRACTUAL OBLIGATIONS	**TOTAL**	**LESS THAN 1 YEAR**	**1 – 3 YEARS**	**3 – 5 YEARS**	**AFTER 5 YEARS**
			(in millions)		
Noncurrent debt (inclusive of interest)	$3,536	$ 949	$1,009	$754	$824
Noncurrent operating leases(1)	746	164	260	189	133
Noncurrent purchase obligations	101	44	23	11	23
Total	$4,383	$1,157	$1,292	$954	$980

(1) The contractual obligations for noncurrent operating leases include sublease income totaling $116 million, expected to be received in the following periods: $27 million (less than 1 year); $38 million (1–3 years); $27 million (3 – 5 years); and $24 million (after 5 years).

As of March 31, 2003, we have no material capital lease obligations, either individually or in the aggregate.

CRITICAL ACCOUNTING POLICIES AND BUSINESS PRACTICES

Note 1 of the Consolidated Financial Statements contains a summary of the significant accounting policies that we use. Many of these accounting policies involve complex situations and require a high degree of judgment, either in the application and interpretation of existing accounting literature or in the development of estimates that impact our financial statements. The following items are the critical accounting policies and business practices that are important to the portrayal of our financial condition and results of operations.

Basis of Revenue Recognition

We generate revenue from the following primary sources: (1) licensing software products, (2) providing customer technical support (hereafter referred to as maintenance), and (3) providing professional services, such as consulting and education.

We recognize revenue pursuant to the requirements of Statement of Position 97-2 "Software Revenue Recognition," (SOP 97-2) issued by the American Institute of Certified Public Accountants as amended by SOP 98-9 "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." While these statements substantially govern the basis for software licensing revenue recognition, we believe that we exercise appropriate judgment in applying criteria set forth in these SOPs to record deferred subscription revenue and to recognize revenue.

In accordance with SOP 97-2, we recognize revenue from the licensing of our software products when all of the following criteria are met: (1) we have entered into a legally binding agreement with a customer; (2) we deliver the products; (3) license agreement terms are deemed fixed or determinable and free of contingencies or uncertainties that may alter the agreement such that it may not be complete and final; and (4) collection is probable. The Company recognizes revenue evenly on a monthly basis over the term of the license.

Our software licenses generally do not include acceptance provisions. An acceptance provision generally allows a customer to test the software for a defined period of time before they commit to licensing the software. If a license agreement includes an acceptance provision, we do not record deferred subscription revenue or recognize revenue until the earlier of the receipt of a written customer acceptance or, if not notified by the customer to cancel the license agreement, the expiration of the acceptance period.

Beginning in October 2000, we began executing software license agreements that include flexible contractual provisions that, among other things, allow customers to receive unspecified future software products for no additional fee. These agreements combine the right to use the software product with maintenance for the term of the agreement. Under these agreements, we are required to recognize revenue ratably on a monthly basis over the term of the license agreement beginning upon completion of the four SOP 97-2 recognition criteria noted above. For license agreements signed prior to October 2000, once all four of the above noted revenue recognition criteria were met, software license fees were recognized as revenue up-front and the maintenance fees were deferred and subsequently recognized as revenue over the term of the license.

Maintenance revenue is derived from two primary sources: (1) combined license and maintenance agreements recorded under our prior business model; and (2) standalone maintenance agreements recorded under both our prior business model and our current Business Model.

Under our prior business model, maintenance and license fees were generally combined into a single license agreement. The maintenance portion was deferred and is amortized into revenue over the initial license agreement term. Many of these license agreements have not reached the end of their initial terms and, therefore, continue to amortize. This amortization is recorded to the "Maintenance" line item on the Consolidated Statements of Operations. The deferred maintenance portion, which was generally optional to the customer, was determined using its fair value based on annual, fixed maintenance renewal rates stated in the agreement. Since we no longer record license agreements under our prior business model, the amount of maintenance deferred as well as the amount of maintenance revenue recognized from such agreements will continue to decrease. For license agreements entered into under our current Business Model, maintenance and license fees continue to be combined; however, the maintenance is no longer optional on an annual basis but rather is inclusive for the entire term. We recognize such combined fees on the "Subscription revenue" line item on the Consolidated Statements of Operations.

Under both our prior business model and our current Business Model, we record standalone maintenance revenue earned from customers who elect optional maintenance for their non-term-based license agreements. Maintenance revenue from such renewals is recognized over the term of the renewal agreement.

We have experienced renewal rates of approximately 80% for fiscal years 2003 and 2002.

Revenue recognition from professional service arrangements begins when all four of the SOP 97-2 revenue recognition criteria as discussed above are met and as the services are performed. If it is not probable that a project will be completed or the payment will be received, revenue is deferred until the uncertainty is removed.

Revenue from sales to distributors, resellers, and VARs is generally recognized when all four of the SOP 97-2 revenue recognition criteria noted above are met and when these entities sell the software products to their customers. This is commonly referred to as the sell-through method.

We have an established business practice of offering installment payment options to customers and have a history of successfully collecting primarily all amounts due under such agreements. We assess collection based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If, in our judgment, collection of a fee is not probable, we will not recognize revenue until the uncertainty is removed, which is generally upon receipt of cash.

Our standard licensing agreements include a product warranty provision for all products. Such warranties are accounted for in accordance with SFAS No. 5, "Accounting for Contingencies." The likelihood that we would be required to make refunds to customers under such provisions is considered remote.

Under the terms of substantially all of our license agreements, we have agreed to indemnify customers for costs and damages arising from claims against such customers based on, among other things, allegations that our software product infringes the intellectual property rights of a third party. In most cases, in the event of an infringement claim, we retain the right to (i) procure for the customer the right to continue using the software product; (ii) replace or modify the software product to eliminate the infringement while providing substantially equivalent functionality; or (iii) if neither (i) nor (ii) can be reasonably achieved, we may terminate the license agreement and refund to the customer a pro-rata portion of the fees paid. Such indemnification provisions are accounted for in accordance with SFAS No. 5. The likelihood that we would be required to make refunds to customers under such provisions is considered remote. The indemnification is limited to the amount paid by the customer.

Accounts Receivable

As detailed in the table included in Note 5 to the Consolidated Financial Statements as of March 31, 2003, net trade and installment accounts receivable, after accounting for unearned revenue and the allowance for doubtful accounts, were $2.373 billion.

The allowance for doubtful accounts is a valuation account used to reserve for potential impairment of accounts receivable on the balance sheet. It reflects an accounting estimate of unidentified losses in the accounts receivable portfolio resulting from the expectations of not collecting all of these accounts receivable in full. The valuation allowance relates to two components of receivables: (a) specifically identified receivables that are evaluated individually for impairment; and (b) all other receivables.

A specific receivable is reviewed for impairment when, based on current information and events, we do not expect to collect fully amounts due according to the contractual terms of the receivable agreement. Factors considered in assessing collectibility include a customer's extended delinquency, requests for restructuring, and filing for bankruptcy. A specific allowance is provided based on the difference between the carrying value of the receivable and the estimated amounts to be collected.

We review the adequacy of the general allowance for doubtful accounts attributable to the remaining pool of accounts receivable by performing various analytical procedures and considering our history of collections of long-term software agreements, as well as the overall economic environment. A 10% change in the estimated default rate used to calculate the general allowance for doubtful accounts would have an approximate $8 million effect on the balance of the allowance for doubtful accounts as of March 31, 2003.

We expect the allowance for doubtful accounts to continue to decline as net installment accounts receivable under the prior business model are billed and collected. Under our Business Model, amounts due from customers are offset by deferred subscription revenue (unearned revenue) related to these amounts, resulting in little or no carrying value on the balance sheet. Therefore, less of an allowance for doubtful accounts is required. Our allowance for doubtful accounts as a percentage of accounts receivable, net of unearned revenue, for the past two fiscal years has approximated 10.5%.

Deferred Tax Assets

When we prepare our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. We record this amount as a provision for our taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." This process requires us to estimate our actual current tax liability in each jurisdiction, estimate differences resulting from differing treatment of items for financial statement purposes versus tax return purposes (known as "temporary differences"), which result in deferred tax assets and liabilities, and assess the likelihood that our deferred tax assets will be recovered from future taxable income. If we believe that recovery is not likely, we establish a valuation allowance. We have recognized as a deferred tax asset, a portion of the tax benefits connected with losses related to operations, which are expected to result in a future tax benefit. As of March 31, 2003, the current and noncurrent deferred tax assets, net of a valuation allowance, totaled $78 million and $29 million, respectively, and have been offset against the respective deferred tax liabilities. This recognition assumes we will be able to generate sufficient future taxable income so that the carryforward of these losses will be realized. The factors that we consider in assessing the likelihood of realization include the forecast of future taxable income and available tax planning strategies that could be implemented to realize the deferred tax assets. Deferred tax assets are primarily a result of acquisition expenses, such as duplicate facility costs, employee severance and other costs, foreign net operating losses (NOLs), and the recognition of subscription revenue pursuant to our Business Model. The NOLs generally expire between 2004 and 2014. An additional valuation allowance of $17 million was established in fiscal year 2003 for certain foreign deferred tax assets we believe might not be realized. Future results may vary from these estimates. At this time it is not practicable to determine if we will need to increase the valuation allowance or if such future valuations will have a material impact on our financial statements.

Goodwill, Capitalized Software Products, and Other Intangible Assets

We account for goodwill under SFAS No. 142, "Goodwill and Other Intangible Assets." This statement requires an impairment-only approach to accounting for goodwill. As a result of various acquisitions completed under the purchase method, goodwill constitutes a significant portion of our total assets.

The SFAS No. 142 goodwill impairment model is a two-step process. The first step is used to identify potential impairment by comparing the fair value of a reporting unit with its net book value (or carrying amount), including goodwill. If the fair value exceeds the carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and are based on our best estimate of future revenue and operating costs and general market conditions. These estimates are subject to review and approval by senior management. This approach uses significant assumptions, including projected future cash flows (including timing), the discount rate reflecting the risk inherent in future cash flows, and a terminal growth rate.

During the fourth quarter of fiscal year 2003, we performed our annual impairment review and recorded a non-cash charge of $80 million to reduce the carrying value of the goodwill associated with our professional services organization to its fair value as of March 31, 2003. This charge resulted from the weak spending environment that affected the IT service sector in general, as well as our continued shift in focus to professional services engagements that are focused solely on our software products. The impairment charge was recorded to the "Goodwill impairment" line item in the Consolidated Statements of Operations.

The carrying value of capitalized software products, both purchased software and internally developed software, and other intangible assets, are reviewed on a regular basis for the existence of internal and external facts or circumstances that may suggest impairment. Such facts and circumstances considered include an assessment of the net realizable value for capitalized software products and the future recoverability of cost for other intangible assets as of the balance sheet date. It is not possible for us to predict the likelihood of any possible future impairments or, if such an impairment were to occur, the magnitude thereof.

New Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires, among other things, that entities record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. This pronouncement is effective for us beginning April 1, 2003. This pronouncement will not have a material impact on the Company upon adoption.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145, among other things, rescinds SFAS No. 4, which required all gains and losses from the extinguishment of debt to be classified as an extraordinary item, and amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. We adopted SFAS No. 145 effective July 1, 2002. As a result, we recorded a $3 million gain in fiscal year 2003 from the early retirement of a portion of our debt which was included in the "Interest expense, net" line item on the Consolidated Statements of Operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that a liability for the cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also established that fair value is the objective for initial measurement of the liability. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. We have not entered into any significant exit or disposal activities since the effective date of this statement. As such, SFAS No. 146 has not had an impact on the Company.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 requires a guarantor to include disclosure of certain obligations, and if applicable, at the inception of the guarantee, recognize a liability for the fair value of other certain obligations undertaken in issuing a guarantee. The recognition requirement was effective for guarantees issued or modified after December 31, 2002. We adopted Interpretation No. 45 effective December 2002 and the applicable disclosures have been made.

In November 2002, the EITF reached a consensus on Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of Issue No. 00-21 will apply to revenue arrangements entered into in fiscal year periods beginning after June 15, 2003, that are not within the scope of higher level accounting literature, including SOP 97-2. We do not believe that the adoption of Issue No. 00-21 will have a material impact on the Company.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123." SFAS No. 148 amends certain provisions of SFAS No. 123 and is effective for financial statements for fiscal years ending after December 15, 2002. Beginning in fiscal year 2004, we will adopt the fair value-based method of recording stock options outlined in SFAS No. 123. Under the fair value-based method, we will charge to expense the computed value of all newly granted stock options over the vesting period based on the options' fair value at the date of grant.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation No. 46 clarifies the application of Accounting Research Bulletin No. 51 and applies immediately to any variable interest entities created after January 31, 2003 and to variable interest entities in which an interest is obtained after that date. This Interpretation is applicable for us in the second quarter of fiscal year 2004, which ends September 30, 2003, for interests acquired in variable interest entities prior to February 1, 2003. This Interpretation requires variable interest entities to be consolidated if the equity investment at risk is not sufficient to permit an entity to finance its activities without support from other parties or the equity investors lack certain, specified characteristics. The adoption of this Interpretation for variable interest entities created after January 31, 2003 did not have a material impact on the Company. We are continuing to review the provisions of this Interpretation to determine its impact, if any, on future reporting periods with respect to interests in variable interest entities created prior to February 1, 2003, but we do not currently anticipate any material accounting or disclosure requirements under the provisions of this Interpretation.

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

Risk Factors

Current and potential stockholders should consider carefully the risk factors described below. Any of these factors, or others, many of which are beyond our control, could negatively affect our revenue, profitability, and cash flow in the future. Such risks are described in further detail in documents we file with the Securities and Exchange Commission, including our most recent reports on Form 10-K, Form 8-K, Form 10-Q and amendments thereto.

- Operating results and revenue are subject to fluctuations caused by many factors.
- The success of our international operations is subject to many factors.
- Our products must remain compatible with ever-changing operating environments.
- The computer software business is highly competitive.
- Certain software is licensed from third parties.
- Failure to protect our intellectual property rights would weaken our competitive position.
- Customers are still adapting to our Business Model.
- Changes to compensation of our sales organization.
- We have a significant amount of debt.
- We may become dependent upon large transactions.
- Growth depends upon successful integration of acquisitions.
- We could be subject to fines, penalties, or other sanctions as a result of a joint inquiry by the SEC and U.S. Attorney's Office.
- Our credit ratings could be downgraded.
- Customer decisions are influenced by general economic conditions.
- The software business is marked by easy entry and large, entrenched businesses.
- Future product development is dependent upon access to third-party operating systems.
- Third-party microcode could impact product development.
- The markets for some or all of our key product areas may not grow.
- Third parties could claim that our products infringe their intellectual property rights.
- Fluctuations in foreign currencies could result in transaction losses.
- Acts of terrorism or war may adversely affect our business.
- Our stock price may continue to be volatile.
- Potential European Union tariffs or United States congressional action in connection with the extraterritorial income case could adversely affect our business.

Quantitative and Qualitative Disclosures About Market Risk

INTEREST RATE RISK

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio, debt, and installment accounts receivable. We have a prescribed methodology whereby we invest our excess cash in debt instruments of government agencies and high-quality corporate issuers (Standard & Poor's single "A" rating and higher). To mitigate risk, many of the securities have a maturity date within one year, and holdings of any one issuer, excluding the U.S. government, do not exceed 10% of the portfolio. Periodically, the portfolio is reviewed and adjusted if the credit rating of a security held has deteriorated. We do not utilize derivative financial instruments to mitigate interest rate risk.

We maintain a blend of both fixed and floating rate debt instruments. As of March 31, 2003, our outstanding debt approximated $3.1 billion, with approximately $2.8 billion in fixed rate obligations. If market rates were to decline, we could be required to make payments on the fixed rate debt that would exceed those based on current market rates. Each 25 basis point decrease in interest rates would have an associated annual opportunity cost of approximately $7 million. Each 25 basis point increase or decrease in interest rates would have an approximate $1 million annual effect on variable rate debt interest based on the balances of such debt as of March 31, 2003.

Under our prior business model, we offered financing arrangements with installment payment terms in connection with our software solution sales. The aggregate amounts due from customers include an imputed interest element, which can vary with the interest rate environment. Each 25 basis point increase in interest rates would have an associated annual opportunity cost of approximately $7 million.

FOREIGN CURRENCY EXCHANGE RISK

We conduct business on a worldwide basis through subsidiaries in 46 countries. We are therefore exposed to movement in currency exchange rates. As part of our risk management strategy and consistent with prior years, we did not enter into any foreign exchange derivative transactions. In addition, we manage our level of exposure by denominating a majority of international sales and payments of related expense in the local currencies of our subsidiaries. A 1% change in all foreign currencies against the U.S. dollar would have an insignificant effect on our results from operations.

EQUITY PRICE RISK

As of March 31, 2003, we have minimal investments in marketable equity securities of publicly traded companies. These investments were considered available-for-sale with any unrealized gains or temporary losses deferred as a component of stockholders' equity. It is not customary for us to make investments in equity securities as part of our investment strategy.

Selected Financial Data

	Year Ended March 31,				
	2003	**2002**	**2001**	**2000**	**1999**
	(in millions, except per share amounts)				
STATEMENTS OF OPERATIONS DATA					
Revenue	$ 3,116	$ 2,964	$ 4,190	$ 6,094	$4,649
Net (loss) income[1]	(267)	(1,102)	(591)	696	626
– Basic (loss) earnings per share[1]	$ (0.46)	$ (1.91)	$ (1.02)	$ 1.29	$ 1.15
– Diluted (loss) earnings per share[1]	(0.46)	(1.91)	(1.02)	1.25	1.11
Dividends declared per common share	.08	.08	.08	.08	.08

	March 31,				
	2003	**2002**	**2001**	**2000**	**1999**
	(in millions)				
BALANCE SHEET AND OTHER DATA					
Cash provided by operating activities	$ 1,309	$ 1,251	$ 1,383	$ 1,566	$1,267
Working capital[2]	591	740	357	988	768
Total assets[3]	11,054	12,243	14,453	17,510	8,087
Deferred subscription revenue[4]	3,774	3,226	1,875	—	—
Long-term debt (less current maturities)	2,298	3,334	3,629	4,527	2,032
Stockholders' equity	4,363	4,617	5,780	7,037	2,729

(1) Our adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," had the effect of prospectively eliminating the amortization of goodwill and certain other intangible assets beginning on April 1, 2002. See Note 1 to the Consolidated Financial Statements for additional information. We amortized goodwill and assembled workforce for fiscal years 2002, 2001, 2000, and 1999 of $462 million ($.80 per share), $463 million ($.80 per share), $225 million ($.40 per share), and $76 million ($.14 per share), respectively.

(2) Represents current assets less current liabilities.

(3) Certain prior years' balances have been reclassified to conform to the current year's presentation. See Note 1 to the Consolidated Financial Statements for additional information.

(4) Represents the aggregate portion of all undiscounted contractual and committed license agreements pursuant to our Business Model for which revenue has been deferred and will be recognized ratably. This balance is the sum of the following four components: deferred subscription revenue — current and deferred subscription revenue — noncurrent, which are reported as contra accounts receivable in Note 5 to the Consolidated Financial Statements; deferred subscription revenue (collected) — current and deferred subscription revenue (collected) — noncurrent, which are reported as liabilities on the Consolidated Balance Sheets.

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, financial positions, and cash flows 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, consisting 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 KPMG LLP, independent auditors. Their accompanying report is based on an audit conducted in accordance with generally accepted auditing standards.

Sanjay Kumar

Sanjay Kumar
Chairman and
Chief Executive Officer
Computer Associates International, Inc.

Ira Zar
Executive Vice President and
Chief Financial Officer
Computer Associates International, Inc.

May 9, 2003

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Computer Associates International, Inc. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 financial position of Computer Associates International, Inc. and subsidiaries as of March 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective April 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

KPMG LLP

KPMG LLP

New York, New York
May 9, 2003

Consolidated Balance Sheets

	March 31, 2003	March 31, 2002
	(dollars in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,421	$ 1,093
Marketable securities	91	87
Trade and installment accounts receivable, net	1,854	1,825
Deferred income taxes	78	—
Other current assets	121	73
TOTAL CURRENT ASSETS	3,565	3,078
INSTALLMENT ACCOUNTS RECEIVABLE, due after one year, net	519	1,566
PROPERTY AND EQUIPMENT		
Land and buildings	551	531
Equipment, furniture, and improvements	877	857
	1,428	1,388
Accumulated depreciation and amortization	763	670
TOTAL PROPERTY AND EQUIPMENT, net	665	718
PURCHASED SOFTWARE PRODUCTS, net of accumulated amortization of $3,078 and $2,648, respectively	1,431	1,836
GOODWILL, net of accumulated amortization of $1,424 and $1,397, respectively	4,453	4,483
OTHER NONCURRENT ASSETS	421	562
TOTAL ASSETS	$11,054	$12,243

See Accompanying Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets (continued)

	March 31, 2003	March 31, 2002
	(dollars in millions)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Loans payable and current portion of long-term debt	$ 828	$ 508
Accounts payable	207	208
Salaries, wages, and commissions	255	236
Accrued expenses and other current liabilities	368	491
Deferred subscription revenue (collected) — current	923	577
Taxes payable, other than income taxes payable	124	116
Federal, state, and foreign income taxes payable	269	195
Deferred income taxes	–	7
TOTAL CURRENT LIABILITIES	2,974	2,338
LONG-TERM DEBT, net of current portion	2,298	3,334
DEFERRED INCOME TAXES	864	1,267
DEFERRED SUBSCRIPTION REVENUE (COLLECTED)—NONCURRENT	173	208
DEFERRED MAINTENANCE REVENUE	350	456
OTHER NONCURRENT LIABILITIES	32	23
STOCKHOLDERS' EQUITY		
Preferred stock, no par value, 10,000,000 shares authorized, no shares issued	–	–
Common stock, $.10 par value, 1,100,000,000 shares authorized, 630,920,576 shares issued	63	63
Additional paid-in capital	3,715	3,878
Retained earnings	2,022	2,335
Accumulated other comprehensive loss	(215)	(361)
Treasury stock, at cost — 54,647,731 shares for 2003 and 53,739,842 shares for 2002	(1,222)	(1,298)
TOTAL STOCKHOLDERS' EQUITY	4,363	4,617
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$11,054	$12,243

See Accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Operations

	Year Ended March 31,		
	2003	**2002**	**2001**
	(in millions except per share amounts)		
REVENUE:			
Subscription revenue	**$1,414**	$ 827	$ 59
Software fees and other	**395**	432	1,881
Maintenance	**769**	958	1,087
Financing fees	**290**	444	638
Professional services	**248**	303	525
TOTAL REVENUE	**3,116**	2,964	4,190
OPERATING EXPENSES:			
Amortization of capitalized software costs	**470**	487	492
Cost of professional services	**237**	283	463
Selling, general, and administrative	**1,463**	1,759	2,120
Product development and enhancements	**664**	678	695
Commissions and royalties	**251**	275	308
Depreciation and amortization of goodwill and other intangible assets	**142**	609	618
Goodwill impairment	**80**	31	–
1995 Stock Plan	**–**	–	(184)
TOTAL OPERATING EXPENSES	**3,307**	4,122	4,512
Loss before other expenses	**(191)**	(1,158)	(322)
Interest expense, net	**172**	227	344
Loss before income taxes	**(363)**	(1,385)	(666)
Income taxes (benefit)	**(96)**	(283)	(75)
NET LOSS	**$ (267)**	$(1,102)	$ (591)
BASIC LOSS PER SHARE	**$ (0.46)**	$ (1.91)	$ (1.02)
Basic weighted-average shares used in computation	**575**	577	582
DILUTED LOSS PER SHARE	**$ (0.46)**	$ (1.91)	$ (1.02)
Diluted weighted-average shares used in computation*	**575**	577	582

**Common share equivalents are not included since their effect would be antidilutive.*

See Accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
			(in millions, except dividends declared per share)			
Balance as of March 31, 2000	$63	$3,902	$4,121	$(280)	$ (769)	$ 7,037
Net loss			(591)			(591)
Translation adjustment in 2001				(109)		(109)
Unrealized gains on equity securities, net of tax				1		1
Comprehensive loss						(699)
Dividends declared ($.080 per share)			(47)			(47)
Exercise of common stock options, ESPP, and other		17			80	97
1995 Stock Plan					(184)	(184)
401(k) discretionary contribution		17			8	25
Purchases of treasury stock					(449)	(449)
Balance as of March 31, 2001	63	3,936	3,483	(388)	(1,314)	5,780
Net loss			(1,102)			(1,102)
Translation adjustment in 2002				31		31
Unrealized loss on equity securities, net of tax				(4)		(4)
Comprehensive loss						(1,075)
Dividends declared ($.080 per share)			(46)			(46)
Purchase of a call spread option		(95)				(95)
Exercise of common stock options, ESPP, and other		33			91	124
401(k) discretionary contribution		4			20	24
Purchases of treasury stock					(95)	(95)
Balance as of March 31, 2002	63	3,878	2,335	(361)	(1,298)	4,617
Net loss			(267)			(267)
Translation adjustment in 2003				143		143
Reclassification adjustment included in net loss				3		3
Comprehensive loss						(121)
Dividends declared ($.080 per share)			(46)			(46)
Purchase of a call spread option		(73)				(73)
Exercise of common stock options, ESPP, and other		(85)			153	68
401(k) discretionary contribution		(5)			29	24
Purchases of treasury stock					(106)	(106)
Balance as of March 31, 2003	$63	$3,715	$2,022	$(215)	$(1,222)	$ 4,363

See Accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Year Ended March 31,		
	2003	**2002**	**2001**
		(in millions)	
OPERATING ACTIVITIES:			
Net loss	$ (267)	$(1,102)	$ (591)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	612	1,096	1,110
Provision for deferred income taxes	(493)	(544)	(350)
Compensation expense (gain) related to stock and pension plans	24	24	(146)
Decrease in noncurrent installment accounts receivable, net	1,069	1,316	828
(Decrease) increase in deferred subscription revenue (collected) — noncurrent	(47)	81	127
Decrease in deferred maintenance revenue	(118)	(81)	(3)
Foreign currency transaction loss — before taxes	67	6	14
Impairment charges	80	59	—
Charge for losses on investments	11	—	—
Gains on early retirement of debt	(3)	—	—
Changes in other operating assets and liabilities, net of effect of acquisitions:			
Decrease (increase) in trade and installment receivables, net — current	125	(45)	253
Increase in deferred subscription revenue (collected) — current	300	415	166
Other changes in operating assets and liabilities	(51)	26	(25)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,309	1,251	1,383
INVESTING ACTIVITIES:			
Acquisitions, primarily purchased software, marketing rights and intangibles, net of cash acquired	(21)	(2)	(174)
Settlements of purchase accounting liabilities	(49)	(59)	(367)
Purchases of property and equipment	(30)	(25)	(89)
Proceeds from sale of property and equipment	4	—	5
Proceeds from disposition of businesses	20	—	158
Purchases of marketable securities	(49)	(38)	(48)
Sales of marketable securities	41	36	40
Increase in capitalized development costs and other	(40)	(53)	(49)
NET CASH USED IN INVESTING ACTIVITIES	(124)	(141)	(524)
FINANCING ACTIVITIES:			
Dividends paid	(46)	(46)	(47)
Purchases of treasury stock	(106)	(95)	(449)
Proceeds from borrowings	507	3,387	1,049
Repayments of borrowings, net	(1,237)	(3,967)	(1,981)
Purchases of call spread options	(73)	(95)	—
Exercise of common stock options and other	47	40	50
NET CASH USED IN FINANCING ACTIVITIES	(908)	(776)	(1,378)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES ON CASH	277	334	(519)
Effect of exchange rate changes on cash	51	(4)	(25)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	328	330	(544)
CASH AND CASH EQUIVALENTS — BEGINNING OF YEAR	1,093	763	1,307
CASH AND CASH EQUIVALENTS — END OF YEAR	$ 1,421	$ 1,093	$ 763

See Accompanying Notes to the 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, licenses, and supports a wide range of integrated enterprise computer software products.

Principles of Consolidation: The Consolidated Financial Statements include the accounts of the Company and its majority owned and controlled subsidiaries. Investments in affiliates owned 50% or less are accounted for by the equity method with liabilities of approximately $2 million. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles (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.

Translation of Foreign Currencies: Foreign currency assets and liabilities of the Company's international subsidiaries are translated using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates prevailing throughout the year. The effects of exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are accumulated as part of the foreign currency translation adjustment in Stockholders' Equity. Gains and losses from foreign currency transactions are included in the "Selling, general, and administrative" (SG&A) line item on the Consolidated Statements of Operations in the period in which they occur. Net loss includes exchange transaction losses of approximately $49 million, $4 million, and $9 million in the fiscal years ended March 31, 2003, 2002, and 2001, respectively.

Statement of Cash Flows: Interest payments for the fiscal years ended March 31, 2003, 2002, and 2001 were $186 million, $239 million, and $344 million, respectively. Income taxes paid for these fiscal years were $320 million, $277 million, and $317 million, respectively.

Basis of Revenue Recognition: The Company generates revenue from the following primary sources: (1) licensing software products; (2) providing customer technical support (hereafter referred to as maintenance); and (3) providing professional services, such as consulting and education.

The Company recognizes revenue pursuant to the requirements of Statement of Position 97-2 "Software Revenue Recognition" (SOP 97-2), issued by the American Institute of Certified Public Accountants, as amended by SOP 98-9 "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions."

In accordance with SOP 97-2, the Company begins to recognize revenue from licensing and supporting its software products when all of the following criteria are met: (1) the Company has entered into a legally binding agreement with a customer; (2) the Company delivers the products; (3) license agreement terms are deemed fixed or determinable and free of contingencies or uncertainties that may alter the agreement such that it may not be complete and final; and (4) collection is probable. The Company recognizes revenue evenly on a monthly basis over the term of the license.

The Company's software licenses generally do not include acceptance provisions. An acceptance provision generally allows a customer to test the software for a defined period of time before they commit to licensing the software. If a license agreement includes an acceptance provision, the Company does not record deferred subscription revenue or recognize revenue until the earlier of the receipt of a written customer acceptance or, if not notified by the customer to cancel the license agreement, the expiration of the acceptance period.

Beginning in October 2000, the Company began executing software license agreements that include flexible contractual provisions that, among other things, allow customers to receive unspecified future software products for no additional fee. These agreements combine the right to use the software product with maintenance for the term of the agreement. Under these agreements, the Company is required to recognize revenue ratably on a monthly basis over the term of the license agreement beginning upon completion of the four SOP 97-2 recognition criteria noted above (the Business Model). For license agreements signed prior to October 2000 (prior business model), once all four of the above noted revenue recognition criteria were met, software license fees were recognized as revenue up-front and the maintenance fees were deferred and subsequently recognized as revenue over the term of the license.

Maintenance revenue is derived from two primary sources: (1) combined license and maintenance agreements recorded under the Company's prior business model; and (2) standalone maintenance agreements recorded under both the Company's prior business model and current Business Model.

Under the Company's prior business model, maintenance and license fees were generally combined into a single license agreement. The maintenance portion was deferred and is amortized into revenue over the initial license agreement term. Many of these license agreements have not reached the end of their initial terms and, therefore, continue to amortize. This amortization is recorded to the "Maintenance" line item on the Consolidated Statements of Operations. The deferred maintenance portion, which was generally optional to the customer, was determined using its fair value based on annual, fixed maintenance renewal rates stated in the agreement. Since the Company no longer records license agreements under its prior business model, the amount of maintenance deferred as well as the amount of maintenance revenue recognized from such agreements will continue to decrease. For license agreements entered into under the Company's current Business Model, maintenance and license fees continue to be combined; however, the maintenance is no longer optional on an annual basis but rather is inclusive for the entire term. The Company recognizes such combined fees on the "Subscription revenue" line item on the Consolidated Statements of Operations.

Under both the prior business model and its current Business Model, the Company records standalone maintenance revenue earned from customers who elect optional maintenance for their non-term-based license agreements. Maintenance revenue from such renewals is recognized over the term of the renewal agreement.

The Company has experienced renewal rates of approximately 80% for fiscal years 2003 and 2002.

The "Deferred maintenance revenue" line item on the Company's Consolidated Balance Sheets principally represents payments received in advance of services rendered.

Revenue recognition from professional service arrangements begins when all four of the SOP 97-2 revenue recognition criteria as discussed above are met and as the services are performed. If it is not probable that a project will be completed or the payment will be received, revenue is deferred until the uncertainty is removed.

Revenue from sales to distributors, resellers, and VARs are generally recognized when all four of the SOP 97-2 revenue recognition criteria noted above are met and when these entities sell the software product to their customers. This is commonly referred to as the sell-through method.

The Company has an established business practice of offering installment payment options to customers and has a history of successfully collecting primarily all amounts due under such agreements. The Company assesses collection based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If, in the Company's judgment, collection of a fee is not probable, it will not recognize revenue until the uncertainty is removed, which is generally upon receipt of cash.

The Company's standard licensing agreements include a product warranty provision for all products. Such warranties are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, "Accounting for Contingencies." The likelihood that the Company would be required to make refunds to customers under such provisions is considered remote.

Under the terms of substantially all of the Company's license agreements, it has agreed to indemnify customers for costs and damages arising from claims against such customers based on, among other things, allegations that its software product infringes the intellectual property rights of a third party. In most cases, in the event of an infringement claim, the Company retains the right to (i) procure for the customer the right to continue using the software product; (ii) replace or modify the software product to eliminate the infringement while providing substantially equivalent functionality; or (iii) if neither (i) nor (ii) can be reasonably achieved, the Company may terminate the license agreement and refund to the customer a pro-rata portion of the fees paid. Such indemnification provisions are accounted for in accordance with SFAS No. 5. The likelihood that the Company would be required to make refunds to customers under such provisions is considered remote. The indemnification is limited to the amount paid by the customer.

Subscription Revenue: Subscription revenue represents the ratable recognition of revenue attributable to license agreements under the Company's Business Model.

Deferred subscription revenue in general represents the aggregate portion of all undiscounted contractual and committed license amounts pursuant to the Company's Business Model for which revenue is deferred and will be recognized ratably over the license agreement duration.

Beginning in fiscal year 2002, the Company split the total deferred subscription revenue into two components, one component being the amount of cash collected in excess of the amount recognized as revenue and the other component being the amount that has not yet been collected and has not yet been recognized as revenue. Each appears within the Company's Consolidated Balance Sheets as "Deferred subscription revenue (collected)," and as "Deferred subscription revenue," a component of installment accounts receivable, respectively. The components of installment accounts receivables are detailed in Note 5. Each of these components is further classified as either current or noncurrent.

Software Fees and Other: Software fees and other primarily consists of royalties and revenue related to distribution partners and original equipment manufacturer (OEM) partners. Revenue from distribution partners is recognized upon sell-through to the end user by the distribution partner. Revenue related to distribution partners and OEMs is sometimes referred to as the Company's "indirect" or "channel" revenue.

In fiscal year 2001, software fees and other also included $1.429 billion of revenue attributable to license agreements recorded under the prior business model, whereby the Company executed license agreements that included terms that resulted in the up-front recognition of revenue upon completion of the four SOP 97-2 revenue recognition criteria noted above.

Financing Fees: Accounts receivable resulting from prior business model product sales with extended payment terms were discounted to their present value at the then prevailing market rates. In subsequent periods, the accounts receivable is increased to the amount due and payable by the customer through the accretion of financing revenue on the unpaid accounts receivable due in future years. Under the Company's Business Model, additional unamortized discounts are no longer recorded, since it does not account for the present value of product sales as earned revenue at license agreement signing.

Fair Value of Financial Instruments: The fair value of the Company's cash and cash equivalents, accounts payable and accrued expense amounts approximate their carrying value. See Notes 3, 5, and 6 for the fair value related to the Company's investments, accounts receivable, and debt payable, respectively.

Concentration of Credit Risk: 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 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 customer base and geographic areas covered by operations.

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 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 "Accumulated Other Comprehensive Loss." The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in the "Interest expense, net" line item on the Consolidated Statements of Operations. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in the "SG&A" line item on the Consolidated Statements of Operations. Declines in market value lasting more than six months are considered to be other-than-temporary. 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 the "Interest expense, net" line item on the Consolidated Statements of Operations (see Note 3).

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- to 40-year lives, and the remaining property and equipment are estimated to have 5- to 7-year lives.

Goodwill: Goodwill represents the excess of the aggregate purchase price over the fair value of the net tangible and identifiable intangible assets and in-process research and development acquired by the Company in a purchase business combination. The Company's adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," had the effect of prospectively eliminating the amortization of goodwill and certain other intangible assets beginning on April 1, 2002. Under the non-amortization approach, goodwill is not amortized into results of operations but instead is reviewed for impairment, written down, and charged as expense to results of operations in periods in which the recorded value of goodwill is more than the goodwill's implied fair value. During the fourth quarter of fiscal year 2003, the Company performed its annual impairment review for goodwill and recorded a non-cash charge of $80 million. This resulted from the weak spending environment that affected the IT service sector in general, as well as the Company's continued shift in focus to professional service engagements that are focused solely on the Company's software products. Estimates of fair value are primarily determined using discounted cash flows and are based on the Company's best estimate of future revenue and operating costs and general market conditions. These estimates are subject to review and approval by senior management. This approach uses significant assumptions, including projected future cash flows (including timing), the discount rate reflecting the risk inherent in future cash flows, and the terminal growth rate. The impairment charge was recorded to the "Goodwill impairment" line item in the Consolidated Statements of Operations.

Prior to the adoption of SFAS No. 142, the Company amortized goodwill over its estimated useful life, which ranged from 10 to 20 years, depending on the nature of the business acquired. The Company recorded amortization of goodwill for the fiscal years ended March 31, 2002 and 2001 of $449 million and $450 million, respectively.

Upon adoption of SFAS No. 142, assembled workforce no longer met the definition of an identifiable intangible asset. As a result, the net balance of $79 million as of March 31, 2002, was reclassified from intangible assets to goodwill. The Company recorded amortization of assembled workforce of $13 million for both fiscal years ended March 31, 2002 and 2001.

The carrying value of goodwill was $4.453 billion and $4.483 billion as of March 31, 2003 and 2002, respectively. During fiscal year 2003, goodwill decreased approximately $30 million, primarily attributable to the $80 million impairment charge taken in the fourth quarter of fiscal year 2003, and a net $33 million reduction related to the adjustment of acquisition reserves. This was partially offset by the addition of $79 million due to the assembled workforce asset reclassification. A reconciliation of previously reported net loss and loss per share to the amounts adjusted for the exclusion of goodwill and assembled workforce amortization is as follows:

	Year Ended March 31,		
	2003	**2002**	**2001**
	(in millions, except per share data)		
Reported net loss	$(267)	$(1,102)	$ (591)
Goodwill amortization	–	449	450
Assembled workforce amortization	–	13	13
Adjusted net loss	$(267)	$ (640)	$ (128)
Reported basic and diluted loss per share	$ (.46)	$ (1.91)	$(1.02)
Goodwill amortization per share	–	.78	.77
Assembled workforce amortization per share	–	.02	.02
Adjusted basic and diluted loss per share	$ (.46)	$ (1.11)	$ (.23)

Capitalized Software Costs and Other Identified Intangible Assets: Capitalized software costs include the fair value of rights to market software products acquired in purchase business combinations (Purchased Software Products). In allocating the purchase price to the assets acquired in a purchase business combination, the Company allocates a portion of the purchase price equal to the fair value at the acquisition date of the rights to market the software products of the acquired company. The purchase price of Purchased Software Products is capitalized and amortized over the estimated useful life of such products over a period not exceeding seven years. The Company recorded amortization of Purchased Software Products for the fiscal years ended March 31, 2003, 2002, and 2001 of $435 million, $455 million, and $467 million, respectively, which were included in the "Amortization of capitalized software costs" line item on the Consolidated Statements of Operations.

In accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," internally generated software development costs associated with new products and significant enhancements to existing software products are expensed as incurred until technological feasibility has been established. Internally generated software development costs of $40 million, $53 million, and $49 million were capitalized during fiscal years 2003, 2002, and 2001, respectively. The Company recorded amortization of $35 million, $32 million, and $25 million for the fiscal years ended March 31, 2003, 2002, and 2001, respectively, which was included in the "Amortization of capitalized software costs" line item on the Consolidated Statements of Operations. Unamortized, internally generated software development costs included in the "Other noncurrent assets" line item on the Consolidated Balance Sheets as of March 31, 2003 and 2002 were $135 million and $130 million, respectively.

Annual amortization of capitalized software costs is the greater of the amount computed using (i) the ratio that current gross revenue for a software product bears to the total of current and anticipated future revenue for that software product, or (ii) the straight-line method over the remaining estimated economic life of the software product. The Company amortized capitalized software costs using the straight-line method in fiscal years 2003, 2002, and 2001, as anticipated future revenue is projected to increase for several years considering the Company is continuously integrating current enterprise software technology into new software products.

Other identified intangible assets include both customer relationships and trademarks/trade names. Prior to the adoption of SFAS No. 142, assembled workforce was included as an identifiable intangible asset. The Company recorded amortization of other identified intangible assets of $39 million, $52 million, and $56 million for the fiscal years ended March 31, 2003, 2002, and 2001, respectively, inclusive of the amortization of assembled workforce in fiscal years 2002 and 2001 of $13 million each. Unamortized other identified intangible assets included in the "Other noncurrent assets" line item on the Consolidated Balance Sheets as of March 31, 2003 and 2002 were $234 million and $352 million, respectively, inclusive of the unamortized balance of $79 million of assembled workforce for fiscal year 2002.

Based on the identified intangible assets recorded through March 31, 2003, the annual amortization expense over the next five fiscal years is expected to be as follows:

	Year Ended March 31,				
	2004	**2005**	**2006**	**2007**	**2008**
			(in millions)		
Capitalized software:					
Purchased	$422	$393	$364	$247	$ 2
Internally developed	40	36	28	20	10
Other	39	39	39	23	23
Total	$501	$468	$431	$290	$35

Accounting for Long-Lived Assets: The carrying values of purchased software products, other intangible assets, and other long-lived assets, including investments, are reviewed on a regular basis for the existence of facts or circumstances, both internally and externally, that may suggest impairment. If an impairment is determined to exist, any related impairment loss is calculated based on net realizable value for capitalized software and fair value for all other intangibles.

Accounting for Stock-Based Compensation: The Company accounts for employee stock-based compensation in accordance with Accounting Principles Board (APB) Opinion 25, "Accounting for Stock Issued to Employees" and related interpretations. The difference between the quoted market prices as of the date of the grant and the contractual purchase price of shares is charged to operations over the vesting period. No compensation expense has been recognized for fixed stock options with exercise prices equal to the market price of the stock on the dates of grant and shares acquired by employees under the Company's stock purchase plans. Pro-forma net loss and net loss per share disclosures, as if the Company recorded compensation expense based on the fair value for stock-based awards, have been presented in accordance with the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123," and are as follows for the years ended March 31, 2003, 2002, and 2001 (See Note 9 for additional information regarding stock plans):

	Year Ended March 31,		
	2003	**2002**	**2001**
	(in millions, except per share amounts)		
Net loss:			
As reported	$(267)	$(1,102)	$ (591)
Add:			
Stock-based employee compensation expense included in net loss, net of tax	1	2	1
Less:			
Total stock-based employee compensation expense determined under the fair value-based method for all awards, net of tax	(94)	(85)	(98)
Pro-forma net loss	$(360)	$(1,185)	$ (688)
Basic loss per share			
As reported	$ (.46)	$ (1.91)	$(1.02)
Pro forma	(.63)	(2.05)	(1.18)
Diluted loss per share			
As reported	$ (.46)	$ (1.91)	$(1.02)
Pro forma	(.63)	(2.05)	(1.18)

The weighted-average fair value at date of grant for options granted in fiscal years 2003, 2002, and 2001 was $8.23, $13.48, and $17.10, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used for option grants in fiscal years 2003, 2002, and 2001, respectively: dividend yields of .56%, .37%, and .30%; expected volatility factors of .67, .65, and .65; risk-free interest rates of 3.2%, 4.9%, and 6.1%; and an expected life of six years. The compensation expense and pro-forma net loss may not be indicative of amounts to be included in future periods.

The weighted-average fair value of the Year 2000 Employee Stock Purchase Plan (the Purchase Plan) shares for offering periods commencing in fiscal years 2003, 2002, and 2001 was $4.94, $11.76, and $10.20, respectively. The fair value is estimated on the first date of the offering period using the Black-Scholes option pricing model. The following weighted-average assumptions were used for Purchase Plan shares in fiscal years 2003, 2002, and 2001, respectively: dividend yields of .56%, .22%, and .32%; expected volatility factors of .70, .65, and .65; risk-free interest rates of 1.5%, 2.7%, and 5.8%; and an expected life of six months. The compensation expense and pro-forma net loss may not be indicative of amounts to be included in future periods.

Beginning in fiscal year 2004, the Company will adopt the fair value-based method of recording stock options outlined in SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123." Under the fair value-based method, the Company will charge to expense the value of all newly granted stock options over the vesting period based on the options' computed fair value at the date of grant.

Comprehensive Loss: Comprehensive loss includes foreign currency translation adjustments and unrealized losses on the Company's available-for-sale securities. As of March 31, 2003 and 2002, the accumulated comprehensive loss included a foreign currency translation loss of $215 million and $358 million, respectively, and no unrealized loss or gain on equity securities in fiscal year 2003 and a $3 million loss in fiscal year 2002. The components of comprehensive loss, net of applicable tax, for the fiscal years ended March 31, 2003, 2002, and 2001, are included within the Consolidated Statements of Stockholders' Equity.

Net Loss Per Share: Basic loss per share and diluted loss per share are computed by dividing net loss by the weighted-average number of common shares outstanding for the period.

	Year Ended March 31,		
	2003	**2002**	**2001**
	(in millions, except per share amounts)		
Net loss[1]	$(267)	$(1,102)	$ (591)
Diluted Loss Per Share			
Weighted-average shares outstanding and common share equivalents[2]	575	577	582
Diluted Loss Per Share	$ (.46)	$ (1.91)	$(1.02)
Diluted Share Computation			
Weighted-average common shares outstanding	575	577	582
Weighted-average 5% Convertible Senior Note shares outstanding	—	—	—
Weighted-average 1.625% Convertible Senior Note shares outstanding	—	—	—
Weighted-average stock options outstanding, net	—	—	—
Weighted-average shares outstanding and common share equivalents[2]	575	577	582

(1) If the fiscal years ended March 31, 2003 and 2002 had resulted in net income and had the common share equivalents for the 5% Convertible Senior Notes (27 million shares) issued in March 2002 and the 1.625% Convertible Senior Notes (23 million shares) issued in December 2002 (collectively, the Notes) been dilutive, interest expense related to the Notes would have been added back to the net income in order to calculate diluted earnings per share. The related interest expense, net of tax, for the years ended March 31, 2003 and 2002, totaled approximately $26 million and less than $1 million, respectively.

(2) For all fiscal years presented, common share equivalents (the Notes and stock options) are not included since their effect would be antidilutive. If the 12-month periods ended March 31, 2003, 2002, and 2001 had resulted in net income and dilution, the weighted-average shares outstanding and common share equivalents would have been 612 million, 591 million, and 592 million, respectively.

Reclassifications: Certain prior years' balances have been reclassified to conform with the current year's presentation.

Contributions made in advance to the Company's employee defined contribution plan have historically been offset against current liabilities. The March 31, 2002 balance of $17 million has been reclassified from the "Accrued expenses and other current liabilities" line item to the "Other current assets" line item on the Consolidated Balance Sheets to conform to the March 31, 2003 presentation.

In accordance with SFAS No. 142, the carrying value of goodwill has been shown as a separate line item on the Consolidated Balance Sheets. As such, the balance of other intangible assets of $352 million at March 31, 2002 has been reclassified from the "Goodwill" line item to the "Other noncurrent assets" line item on the Consolidated Balance Sheets to conform to the March 31, 2003 presentation.

Also in accordance with SFAS No. 142, the $80 million goodwill impairment charge in fiscal year 2003 has been shown as a separate line item on the Consolidated Statements of Operations. The $59 million impairment charge recorded in the prior fiscal year (see Note 2) included a goodwill impairment charge of $31 million. This amount has been reclassified from the "SG&A" line item to the "Goodwill impairment" line item on the Consolidated Statements of Operations to conform to the March 31, 2003 presentation.

Note 2 — Acquisitions and Divestitures

In April 2002, the Company completed the divestiture of certain non-core assets to SSA Global Technologies, Inc. (SSA). These assets consisted principally of the Company's supply-chain management, financial management, and human resource management software product groups operating under the name interBiz™. Of the $25 million selling price, approximately $12 million was received in the quarter ended June 30, 2002. In January 2003, an agreement was reached to offset the remaining selling price SSA owed to the Company against obligations the Company owed to SSA. These interBiz operations generated approximately $82 million of revenue and $90 million of direct expenses for fiscal year 2002 and $137 million of revenue and $144 million of direct expenses for fiscal year 2001. As part of the transaction, net billed and unbilled accounts receivable and net deferred subscription revenue were reduced by approximately $25 million and $72 million, respectively. Approximately 725 employees were transferred to SSA as part of this transaction. Under the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company recorded a $59 million, non-cash impairment charge to operations related to its investment in interBiz assets in March 2002. The portion of the charge related to the capitalized software impairment of $28 million was included in the "SG&A" expense line item on the Consolidated Statements of Operations and the portion of the charge related to the goodwill impairment of $31 million was included in the "Goodwill impairment" line item on the Consolidated Statements of Operations.

In October 2002, the Company completed the divestiture of its banking products group, the remaining product group of interBiz, to a third party. Proceeds from the divestiture totaled approximately $8 million, which was received in the quarter ended December 31, 2002. Prior to the divestiture, the banking products group generated approximately $12 million of revenue and $7 million of direct expenses for fiscal year 2003, approximately $12 million of revenue and $10 million of direct expenses for fiscal year 2002, and approximately $11 million revenue and $14 million of direct expenses for fiscal year 2001. As part of the transaction, net billed and unbilled accounts receivable and net deferred subscription revenue were reduced by approximately $12 million and $18 million, respectively. Approximately 80 employees were transferred to the acquirer as part of this transaction.

In October 2000, the Company completed the sale of the Federal Systems Group (FSG), a provider of government consulting services, for approximately $150 million in cash. FSG was a division of Sterling Software, Inc. (Sterling). The Company purchased Sterling on March 31, 2000. Sterling was a developer and provider of systems management, business intelligence, and application development software products and services, as well as a supplier of specialized IT services for sectors of the federal government. Since the Company did not note the occurrence of any events or trends that would have impacted the fair value of FSG since the purchase of Sterling, the Company viewed the selling price of FSG as an indicator of its fair value and adjusted the allocation of Sterling's purchase price. As a result, no gain or loss was recorded on the sale.

On May 28, 1999, the Company acquired PLATINUM *technology* International, *inc.* (PLATINUM). PLATINUM was engaged in providing software products in the areas of database management, eBusiness, application infrastructure management, decision support, data warehousing, and knowledge management, as well as Year 2000 reengineering and other consulting services.

During fiscal years 2003, 2002, and 2001, the Company acquired certain consulting businesses and product technologies, which, individually and collectively, were not material to the consolidated financial statements taken as a whole. The Consolidated Statements of Operations reflect the results of operations of the companies since the effective dates of the acquisitions.

Liabilities related to acquisitions consist of the following:

	STERLING		PLATINUM		OTHER	
	DUPLICATE FACILITIES & OTHER COSTS	EMPLOYEE COSTS	DUPLICATE FACILITIES & OTHER COSTS	EMPLOYEE COSTS	DUPLICATE FACILITIES & OTHER COSTS	EMPLOYEE COSTS
			(in millions)			
Balance as of March 31, 2001	$100	$ 27	$ 99	$ 45	$ 23	$13
Settlements	(22)	(5)	(25)	(15)	(5)	(5)
Adjustments	—	(16)	(23)	(3)	(12)	(7)
Balance as of March 31, 2002	$ 78	$ 6	$ 51	$ 27	$ 6	$ 1
Settlements	(27)	(1)	(14)	(9)	(2)	—
Adjustments	(10)	—	(8)	(1)	—	—
Balance as of March 31, 2003	**$ 41**	**$ 5**	**$ 29**	**$ 17**	**$ 4**	**$ 1**

The employee costs relate to involuntary termination benefits and the duplicate facilities and other costs relate to operating leases, which are actively being renegotiated and expire at various times through 2010, negotiated buyouts of the operating lease commitments, and other contractually related liabilities. The fiscal year 2001 Sterling Software, Inc. and PLATINUM adjustments represent changes in the exit plan from its formulation until its finalization less than one year from the completion of the respective acquisition. The remaining acquisition adjustments, which resulted in a reduction to the corresponding liability and related goodwill, represent reductions due to the settlement of obligations at amounts less than those originally estimated. The remaining liability balances are included in the "Accrued expenses and other liabilities" line item on the Consolidated Balance Sheets.

Note 3 — Marketable Securities

The following is a summary of marketable securities classified as available-for-sale:

	Year Ended March 31, 2003	2002
	(in millions)	
Debt/Equity Securities:		
Cost	$91	$91
Gross unrealized gains	2	1
Gross unrealized losses	(2)	(5)
Estimated fair value	$91	$87

There were no realized gains or losses for the fiscal years ended March 31, 2003, 2002, or 2001. For the fiscal year ended March 31, 2003, the Company recorded an approximate $11 million loss due to an other-than-temporary decline in the fair value of various equity investments, which was included in the "SG&A" line item on the Consolidated Statements of Operations.

The estimated fair value of debt and equity securities is based upon published closing prices of those securities as of March 31, 2003. For debt securities, amortized cost is classified by contractual maturity. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	March 31, 2003 COST	ESTIMATED FAIR VALUE
	(in millions)	
Debt securities, which are recorded at market, maturing:		
Within one year or less	$36	$36
Between one and three years	40	42
Between three and five years	10	10
Debt securities, which are recorded at market	86	88
Equity securities, which are recorded at market	5	3
Total marketable securities	$91	$91

Note 4 — Segment and Geographic Information

The Company's chief operating decision maker reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenue, by geographic region, for purposes of assessing financial performance and making operating decisions. Accordingly, the Company considers itself to be operating in a single industry segment. The Company is principally engaged in the design, development, marketing, licensing, and support of integrated enterprise computer software products operating on a wide range of hardware platforms and operating systems. The Company does not manage its business by solution or focus area and therefore does not maintain its revenue on such a basis.

The following table presents information about the Company by geographic area for the fiscal years ended March 31, 2003, 2002, and 2001:

	UNITED STATES	EUROPE[a]	OTHER[a]	ELIMINATIONS	TOTAL
			(in millions)		
March 31, 2003					
Revenue:					
To unaffiliated customers	$ 1,814	$ 828	$ 474	$ —	$ 3,116
Between geographic areas[b]	302	—	—	(302)	—
Total Revenue	2,116	828	474	(302)	3,116
Property and equipment, net	477	164	24	—	665
Identifiable assets	10,571	795	412	(724)	11,054
Total liabilities	6,652	332	431	(724)	6,691
March 31, 2002					
Revenue:					
To unaffiliated customers	$ 1,847	$ 667	$ 450	$ —	$ 2,964
Between geographic areas[b]	247	—	—	(247)	—
Total Revenue	2,094	667	450	(247)	2,964
Property and equipment, net	541	151	26	—	718
Identifiable assets	11,210	671	487	(125)	12,243
Total liabilities	6,801	501	449	(125)	7,626
March 31, 2001					
Revenue:					
To unaffiliated customers	$ 2,730	$ 832	$ 628	$ —	$ 4,190
Between geographic areas[b]	311	—	—	(311)	—
Total Revenue	3,041	832	628	(311)	4,190
Property and equipment, net	602	160	32	—	794
Identifiable assets	13,840	592	463	(442)	14,453
Total liabilities	7,922	738	455	(442)	8,673

(a) The Company operates through branches and wholly owned subsidiaries in Canada and in 45 other foreign countries located in the Middle East (1), Africa (2), South America (7), Asia/Pacific (13), and Europe (22). Revenue is allocated to a geographic area based on the location of the sale.

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

No single customer accounted for 10% or more of total revenue for the fiscal years ended March 31, 2003, 2002, or 2001.

Note 5 — Trade and Installment Accounts Receivable

The Company uses installment license agreements as a standard business practice and has a history of successfully collecting primarily all amounts due under the original payment terms without making concessions on payments, software products, maintenance, or professional services. Net trade and installment accounts receivable is composed of the total committed amounts due from customers throughout the license term pursuant to such agreements. These accounts receivable balances exclude unamortized discounts based on imputed interest for the time value of money for license agreements under the prior business model, unearned revenue attributable to maintenance, deferred subscription revenue, unearned professional services contracted for in the license agreement, and allowances for doubtful accounts. Deferred subscription revenue represents the deferred license agreement fees recorded under the Company's Business Model, which will amortize into revenue over the respective license agreement term.

Trade and installment accounts receivable consist of the following:

	March 31,	
	2003	**2002**
	(in millions)	
Billed accounts receivable	$ 835	$ 1,011
Unbilled amounts due within the next 12 months — Business Model	1,284	790
Unbilled amounts due within the next 12 months — prior business model	1,020	1,535
Less: Allowance for doubtful accounts	(190)	(353)
Net amounts expected to be collected	2,949	2,983
Less: Unearned revenue — current	(1,095)	(1,158)
Net trade and installment accounts receivable — current	$ 1,854	$ 1,825
Unbilled amounts due beyond the next 12 months — Business Model	$ 1,210	$ 1,565
Unbilled amounts due beyond the next 12 months — prior business model	1,807	2,730
Less: Allowance for doubtful accounts	(85)	(60)
Net amounts expected to be collected	2,932	4,235
Less: Unearned revenue — noncurrent	(2,413)	(2,669)
Net installment accounts receivable — noncurrent	$ 519	$ 1,566

As of March 31, 2003 and 2002, unearned revenue — current consists of unamortized discounts of $185 million and $288 million, respectively; unearned maintenance of $189 million and $290 million, respectively; deferred subscription revenue of $688 million and $522 million, respectively; and unearned professional services of $33 million and $58 million, respectively.

As of March 31, 2003 and 2002, unearned revenue — noncurrent consists of unamortized discounts of $250 million and $417 million, respectively; unearned maintenance of $173 million and $333 million, respectively; and deferred subscription revenue of $1.990 billion and $1.919 billion, respectively.

Unbilled amounts under the Company's Business Model are generally collectible over one to five years. As of March 31, 2003, on a cumulative basis, approximately 51%, 85%, 93%, 96%, and 98% of amounts due from customers recorded under the Company's Business Model come due within fiscal years ended 2004 through 2008, respectively.

Unbilled amounts under the prior business model are generally collectible over three to six years. As of March 31, 2003, on a cumulative basis, approximately 36%, 61%, 75%, 83%, and 88% of amounts due from customers recorded under the prior business model come due within fiscal years ended 2004 through 2008, respectively.

The provision for doubtful accounts for the fiscal years ended March 31, 2003, 2002, and 2001 was $68 million, $233 million, and $235 million, respectively, and is included in the "SG&A" line item on the Consolidated Statements of Operations.

The Company's estimate of the fair value of net installment accounts receivable recorded under the prior business model approximates carrying value since it is net of discounts, unearned contractual obligations, and an allowance for doubtful accounts. The fair value of the unbilled amounts recorded under the Company's Business Model (unbilled amounts due less deferred subscription revenue) may have a fair value greater than that reported in the balance sheet. Currently, amounts due from customers under the Company's Business Model are offset by unearned revenue related to these license agreements, leaving no or minimal net carrying value on the balance sheet for such amounts. The fair value may actually exceed this carrying value but cannot be practicably assessed since there is no existing market for a pool of customer receivables with such contractual commitments similar to that of the Company's. The actual fair value may not be known until these amounts are sold, securitized, or collected. Although these customer license agreements commit the customer to payment under a fixed schedule, the agreements are considered executory in nature due to the ongoing commitment to provide "unspecified future deliverables" as part of the agreement terms.

Note 6 — Debt

Credit Facilities

As of March 31, 2003, the Company's committed bank credit facilities consisted of a $400 million, four-year unsecured bank revolving credit facility expiring on May 30, 2003 (the 1999 Revolver) and a new $440 million, unsecured bank revolving credit facility expiring on January 31, 2005 (the 2002 Revolver). As of March 31, 2002, the outstanding balance on the Company's bank credit facilities included $600 million related to the 1999 Revolver and $600 million related to a term loan which expired May 2003 (the 1999 Term Loan).

	March 31,			
	2003		**2002**	
	MAXIMUM AVAILABLE	**OUTSTANDING BALANCE**	**MAXIMUM AVAILABLE**	**OUTSTANDING BALANCE**
	(in millions)			
1999 Revolver	$400	$350	$1,000	$600
1999 Term Loan	—	—	—	600
2002 Revolver	440	—	—	—

On December 31, 2002, the Company entered into the 2002 Revolver agreement with a maximum available borrowing capacity of $400 million. During the quarter ending March 31, 2003, the 2002 Revolver was increased to $440 million, and then in April 2003 it was further increased to a total capacity of $460 million. No amount was drawn under the 2002 Revolver as of March 31, 2003. The interest rates on the 2002 Revolver are determined based on a ratings grid, which applies a margin to the prevailing London InterBank Offered Rate (LIBOR). The Company capitalized the initial transaction fees associated with the 2002 Revolver, which totaled approximately $6 million. These fees are being amortized over the term of the 2002 Revolver in the "Interest expense, net" line item on the Consolidated Statements of Operations.

Effective December 31, 2002, the Company reduced the maximum available borrowing capacity under the 1999 Revolver from $1 billion to $400 million. In April 2002, the Company repaid $250 million of the $600 million outstanding balance as of March 31, 2002. As of March 31, 2003, $350 million remained outstanding under the 1999 Revolver at an effective interest rate of approximately 3.08%.

During fiscal year 2003, the Company also repaid the entire $600 million balance outstanding as of March 31, 2002 on the 1999 Term Loan. The Company repaid $257 million of the balance of the 1999 Term Loan on December 31, 2002 in advance of the first quarter of the fiscal year 2004 due date.

The Company is required to maintain certain financial ratios in connection with its bank credit facilities. Covenant calculations are based upon maintaining ratios of cash generated from operations to interest expense and total debt, in addition to a net worth covenant, all of which are defined within the respective credit agreements. The Company is in compliance with all such covenants as of March 31, 2003.

Senior Note Obligations

As of March 31, 2003 and 2002, the Company had the following unsecured, fixed-rate interest, senior note obligations outstanding:

	March 31,	
	2003	**2002**
	(in millions)	
6.770% Senior Notes due April 2003	$ 64	$128
6.250% Senior Notes due April 2003	412	575
6.375% Senior Notes due April 2005	825	825
5.000% Convertible Senior Notes due March 2007	660	660
6.500% Senior Notes due April 2008	350	350
1.625% Convertible Senior Notes due December 2009	460	—

In December 2002, the Company issued $460 million of unsecured 1.625% Convertible Senior Notes (1.625% Notes), due December 15, 2009. The 1.625% Notes were issued to the initial purchasers pursuant to a private placement under Section 4(2) of the Securities Act of 1933, as amended (the Securities Act) and subsequently resold to Qualified Institutional Buyers in reliance on Rule 144A and Regulation S of the Securities Act. The Company capitalized the initial transaction fees associated with the 1.625% Notes, which totaled approximately $12 million. These fees are being amortized over the period through maturity of the 1.625% Notes in the "Interest expense, net" line item on the Consolidated Statements of Operations.

The 1.625% Notes are senior unsecured indebtedness and rank equally with all existing senior unsecured indebtedness. The holders of the 1.625% Notes may convert all or some of their 1.625% Notes at any time prior to December 15, 2009, at a conversion price of $20.04 per share. The initial conversion rate is 49.9002 common shares per $1,000 principal amount of the 1.625% Notes and is subject to adjustment under certain circumstances. Upon a conversion, the Company may choose to deliver, in lieu of shares of common stock, cash or a combination of cash and shares of common stock.

The Company may redeem the 1.625% Notes only at the maturity date of December 15, 2009. The Company intends to file a registration statement with respect to the 1.625% Notes and the common stock issuable upon conversion of the 1.625% Notes.

Concurrent with the issuance of the 1.625% Notes, the Company entered into call spread repurchase option transactions (1.625% Notes Call Spread). The entire 1.625% Notes Call Spread purchase price of $73 million has been charged to Stockholders' Equity. Under the terms of the 1.625% Notes Call Spread, the Company has the option to receive (i) outstanding shares equivalent to the number of shares that may be issued if all of the 1.625% Notes are converted into shares (22.954 million shares) upon payment of an exercise price of $20.04 per share (aggregate of $460 million); or (ii) a net cash settlement, net share settlement or a combination, whereby the Company will receive cash or shares equal to the increase in the market value of the 22.954 million shares from the aggregate value at the $20.04 exercise price (aggregate of $460 million), subject to the upper limit of $30.00 discussed below. The 1.625% Notes Call Spread can be exercised during December 2009 at an exercise price of $20.04 per share. To limit the cost of the 1.625% Notes Call Spread, an upper limit of $30.00 per share has been set such that if the price of the common stock is above that limit at the time of exercise, the number of shares eligible to be purchased will be proportionately reduced based on the amount the common share price exceeds $30.00 at the time of exercise. The 1.625% Notes Call Spread is intended to give the Company the option at the maturity date to eliminate dilution as a result of the 1.625% Notes being converted to common shares, up to the $30.00 price per common share, and to mitigate dilution if the share price exceeds $30.00 at that time. The 1.625% Notes Call Spread was provided by two leading banking institutions.

In fiscal year 2002, the Company issued $660 million of unsecured 5% Convertible Senior Notes, due March 15, 2007 (5% Notes), in a transaction pursuant to Rule 144A. The 5% Notes are senior unsecured indebtedness and rank equally with all existing senior unsecured indebtedness. The Company capitalized the initial transaction fees associated with the 5% Notes, which totaled approximately $16 million. These fees are being amortized over the period through maturity of the 5% Notes in the "Interest expense, net" line item on the Consolidated Statements of Operations. Concurrent with the issuance of the 5% Notes, the Company entered into a call spread repurchase option transaction (5% Notes Call Spread). The option purchase price of the 5% Notes Call Spread was $95 million. The entire purchase price of $95 million was charged to Stockholders' Equity. Under the terms of the 5% Notes Call Spread, the Company has the option to purchase outstanding shares equivalent to the number of shares that may be issued if all of the 5% Notes are converted into shares (27.116 million shares), thereby mitigating dilution to stockholders. The 5% Notes Call Spread can be exercised at the three-year anniversary of the issuance of the 5% Notes at an exercise price of $24.83 per share. To limit the cost of the 5% Notes Call Spread, an upper limit of $36.60 per share has been set such that if the price of the common stock is above that limit at the time of exercise, the number of shares eligible to be purchased will be proportionately reduced based on the amount the common share price exceeds $36.60 at the time of exercise.

Debt ratings for the Company's senior unsecured notes and bank credit facilities are BBB+ and Baa2 from Standard & Poor's and Moody's Investors Service, respectively. In addition, these rating agencies have a current outlook of negative.

During fiscal year 2003, the Company repurchased $163 million of the 6.25% Senior Notes due April 15, 2003, at a discount. The repurchases resulted in a total gain of approximately $3 million. The gain was included in the "Interest expense, net" line item on the Consolidated Statements of Operations. The balances of the 6.25% and 6.77% senior notes were both repaid in April 2003 with cash on hand as of March 31, 2003.

Other

	March 31,			
	2003		**2002**	
	MAXIMUM AVAILABLE	**OUTSTANDING BALANCE**	**MAXIMUM AVAILABLE**	**OUTSTANDING BALANCE**
	(in millions)			
Commercial paper	$400	$—	$1,000	$82
International line of credit	3	—	51	15
Other	—	5	—	7

The Company has a $400 million commercial paper (CP) program with no borrowings outstanding as of March 31, 2003. The CP program, rated A-2 by Standard & Poor's and P-2 by Moody's Investors Service, provides for the issuance of CP not to exceed 270 days. As of March 31, 2002, the Company had $82 million of CP outstanding bearing interest approximating 2.37%. During fiscal year 2003, the Company repaid the $82 million outstanding and also reduced the maximum available borrowing capacity from $1 billion to $400 million. Any future issuances of CP will be supported by cash and marketable securities on hand and undrawn amounts available under the 2002 Revolver.

The Company has a $3 million unsecured and uncommitted multicurrency line of credit available to meet short-term working capital needs for subsidiaries operating outside the United States. No amount was drawn under this credit line as of March 31, 2003. The Company reduced the maximum available borrowing capacity from $51 million, of which $15 million was drawn, as of March 31, 2002.

As of March 31, 2003 and 2002, the Company had various other debt obligations outstanding, which approximated $5 million and $7 million, respectively.

The Company conducts an ongoing review of its capital structure and debt obligations as part of its risk management strategy. As of March 31, 2003, the fair value of the Company's debt was approximately $95 million more than its carrying value.

Interest expense for the fiscal years ended March 31, 2003, 2002, and 2001 was $193 million, $249 million, and $370 million, respectively.

The maturities of outstanding debt for the next five fiscal years are as follows:

	Year Ended March 31,				
	2004	2005	2006	2007	2008
			(in millions)		
Amount due	$828	$1	$825	$661	$1

Note 7 — Commitments and Contingencies

The Company leases real estate and certain data processing and other equipment with lease terms expiring through 2023. The leases are operating leases and generally provide for renewal options and additional rentals based on escalations in operating expenses and real estate taxes. The Company has no material capital leases.

Rental expense under operating leases for the fiscal years ended March 31, 2003, 2002, and 2001, was $217 million, $220 million, and $238 million, respectively. Future minimum lease payments are: 2004 — $164 million; 2005 — $141 million; 2006 — $119 million; 2007— $101 million; 2008 — $88 million; and thereafter — $133 million. These future minimum lease payments include sublease income of: 2004 — $27 million; 2005 — $21 million; 2006 — $17 million; 2007— $14 million; 2008 — $13 million; and thereafter — $24 million.

The Company has commitments to invest approximately $5 million in connection with joint venture agreements.

In prior fiscal years, the Company sold individual accounts receivable under the prior business model to an external third party subject to certain recourse provisions. These amounts subject to recourse approximated $141 million and $218 million as of March 31, 2003 and 2002, respectively.

The Company, the former Chairman of the Company, Charles B. Wang, Sanjay Kumar, and Russell M. Artzt are defendants in a number of stockholder class action lawsuits, the first of which was filed July 23, 1998, alleging that a class consisting of all persons who purchased the Company's common stock during the period January 20, 1998 until July 22, 1998 were harmed by misleading statements, misrepresentations, and omissions regarding the Company's future financial performance. These cases, which seek monetary damages, have been consolidated into a single action in the United States District Court for the Eastern District of New York, the proposed class has been certified, and discovery is substantially complete. Additionally, in February and March 2002, a number of stockholder lawsuits were filed in the U.S. District Court for the Eastern District of New York against the Company and Messrs. Wang, Kumar, Ira Zar, the Company's Chief Financial Officer, and in one instance Mr. Artzt. The lawsuits generally allege, among other things, that the Company made misleading statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading in connection with the Company's financial performance. Each of the named individual plaintiffs in the 2002 lawsuits seeks to represent a class consisting of purchasers of the Company's common stock and call options and sellers of put options for the period May 28, 1999 through February 25, 2002. The 2002 cases have been consolidated, and the Company's former independent auditor, Ernst & Young LLP, has been named as a defendant, but class action status has not yet been certified and discovery has not been taken. In addition, in November 2002, a class action lawsuit captioned Dana L. King v. Computer Associates International, Inc., et al. was filed in the U.S. District Court for the Eastern District of New York. The complaint in this matter, a purported class action on behalf of the Computer Associates Savings Harvest Plan (the CASH Plan) and the participants and beneficiaries of the CASH Plan for a class period running from March 30, 1998, through November 25, 2002, asserts claims of breach of fiduciary duty under ERISA, the federal Employee Retirement Security Act. The named defendants are the Company, the Company's Board of Directors, the CASH Plan, the Administrative Committee of the CASH Plan, and the following current or former employees and/or Board members of the Company: Charles B. Wang; Sanjay Kumar; Ira Zar; Russell M. Artzt; Willem F.P. de Vogel; Irving Goldstein (now deceased); Richard A. Grasso; Shirley Strum Kenny; Alfonse M. D'Amato; Roel Pieper; Lewis S. Ranieri; Linus W. L. Cheung; Jay W. Lorsch; Robert E. La Blanc; Alex Serge Vieux; Thomas H. Wyman (now deceased); and various unidentified alleged fiduciaries of the CASH Plan. The complaint alleges that the defendants breached their fiduciary duties by causing the CASH Plan to invest in Company securities and seeks damages in an unspecified amount. No response to the complaint is due until questions regarding the standing of the named plaintiff have been resolved. Although the ultimate outcome and liability, if any, cannot be determined, the Company believes that the facts do not support the claims in these lawsuits and that the Company and its officers and directors have meritorious defenses. In the opinion of management, resolution of these lawsuits is not expected to have a material adverse effect on the financial position of the Company. In the event of an unfavorable resolution of any of these matters, however, the Company's earnings and cash flows in one or more periods could be materially adversely affected.

As previously reported, the Company has been providing documents and other information to the United States Attorney's Office for the Eastern District of New York and the staff of the Northeast Regional Office of the Securities and Exchange Commission in connection with an ongoing investigation concerning certain of the Company's accounting practices. At this point, the Company cannot predict the scope or outcome of the inquiry, which may include the institution of administrative, civil injunctive or criminal proceedings, the imposition of fines and penalties, suspensions or disbarments from government contracts, or other remedies and sanctions. The Company also cannot predict what impact, if any, the inquiry may have on its results of operations or financial condition.

Two derivative lawsuits have been filed against certain current and former directors of the Company, which are based on essentially the same allegations as those contained in the February and March 2002 stockholder lawsuits (discussed above). The first action was commenced in April 2002 in Delaware Chancery Court and alleges that certain former and current directors of the Company (except Messrs. Kenneth D. Cron, Robert E. La Blanc, Jay W. Lorsch, Walter P. Schuetze, and Alex Serge Vieux) breached their fiduciary duties resulting in alleged damages to the Company of an unspecified amount. The second derivative lawsuit was commenced in June 2002, in New York State Supreme Court, Suffolk County, against certain former and current directors of the Company (except Messrs. Cron, La Blanc, Lorsch, Schuetze, and Vieux), as well as Ernst & Young LLP and KPMG LLP (the Company's former and current independent auditor, respectively). This second action, which alleged claims similar to those alleged in the derivative action pending in Delaware Chancery Court, also alleged that certain management director defendants sold common stock of the Company during the period June 1999 through February 2002 while in possession of material non-public information concerning the Company. This second action was dismissed without prejudice in or about November 2002. Thereafter, the complaint in the derivative action pending in Delaware Chancery Court was amended to withdraw claims against one former director, Mr. Linus Wing Lam Cheung, and add allegations of insider trading by certain management director defendants. The amended complaint in the derivative action pending in Delaware Chancery Court alleges breach of fiduciary duties and misappropriation of confidential, material information and seeks an accounting and recovery of an unspecified amount of damages, including recovery of the profits allegedly realized from the sale of common stock of the Company.

In July 2002, two derivative lawsuits against the current directors of the Company, and certain former directors, were filed in the Chancery Court in Delaware. These lawsuits concern the payment to and standstill agreement with Sam Wyly and Ranger Governance Ltd. (Ranger) pursuant to which they agreed not to engage in a proxy contest with the Company for five years, and Mr. Wyly's non-compete agreement with the Company was extended. The lawsuits generally allege breach of fiduciary duties, waste and misappropriation of corporate assets, and damages to the Company in an unspecified amount.

The Company, various subsidiaries, and certain current and former officers have been named as defendants in various other claims and lawsuits arising in the normal course of business. The Company believes that it has meritorious defenses in connection with such claims and lawsuits and intends to vigorously contest each of them. In the opinion of the Company's management, the results of these other claims and lawsuits, either individually or in the aggregate, are not expected to have a material effect on the Company's results of operations, financial position, or cash flows.

Note 8 — Income Taxes

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

	Year Ended March 31,		
	2003	**2002**	**2001**
		(in millions)	
Domestic	$(448)	$(1,166)	$(344)
Foreign	85	(219)	(322)
	$(363)	$(1,385)	$(666)

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

	Year Ended March 31,		
	2003	**2002**	**2001**
		(in millions)	
Current:			
Federal	$ 282	$ 186	$ 204
State	25	19	20
Foreign	90	56	51
	397	261	275
Deferred:			
Federal	$(399)	$(401)	$(169)
State	(39)	(41)	(14)
Foreign	(55)	(102)	(167)
	(493)	(544)	(350)
Total:			
Federal	$(117)	$(215)	$ 35
State	(14)	(22)	6
Foreign	35	(46)	(116)
	$ (96)	$(283)	$ (75)

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

	Year Ended March 31,		
	2003	**2002**	**2001**
	(in millions)		
Tax benefit at U.S. federal statutory rate	$(127)	$(485)	$(233)
Increase in tax expense resulting from:			
Goodwill impairment	28	–	–
Non-deductible amortization of excess cost over net assets acquired	–	186	177
Effect of international operations, including foreign export benefit	(15)	(4)	(25)
State taxes, net of federal tax benefit	(9)	(12)	4
Valuation allowance	17	21	–
Other, net	10	11	2
	$ (96)	$(283)	$ (75)

Deferred income taxes reflect the impact of temporary differences between the carrying amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes. The tax effects of the temporary differences are as follows:

	March 31,	
	2003	**2002**
	(in millions)	
Deferred tax assets	$110	$ 141
Valuation allowance	(38)	(21)
Total deferred tax assets	$ 72	$ 120
Deferred tax liabilities:		
Modified accrual basis accounting and other	$441	$ 842
Purchased software	417	552
Total deferred tax liabilities	$858	$1,394
Net deferred tax liability	$786	$1,274

Deferred tax assets primarily relate to acquisition liabilities, such as duplicate facility, employee severance and other costs, foreign net operating losses (NOLs), and the recognition of subscription revenue pursuant to the Company's Business Model. Foreign NOLs totaled approximately $214 million and $185 million as of March 31, 2003 and 2002, respectively. These NOLs generally expire between 2004 and 2014. A valuation allowance on the net deferred tax assets of $72 million was not established in the year ended March 31, 2003 for certain acquisition liabilities and NOLs, since management believes it is more likely than not that such amounts will be realized.

No provision has been made for federal income taxes on unremitted earnings of the Company's foreign subsidiaries (approximately $344 million of earnings as of March 31, 2003), since the Company plans to permanently reinvest all such earnings.

Note 9 – Stock Plans

The Company has a 1987 Non-Statutory Stock Option Plan (the 1987 Plan) pursuant to which options to purchase up to 17 million shares of Common Stock of the Company could 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 fair market value (FMV) of each share at the date of grant. The option period shall not exceed 12 years. Options granted thereunder may be exercised in annual increments commencing one year after the date of grant and become fully exercisable after five years. The 1987 Plan expired on March 24, 2002. Therefore, from and after that date no new options can be granted under the 1987 Plan. All of the 337,500 options which are outstanding under the 1987 Plan are exercisable as of March 31, 2003. These options are exercisable at $2.26 – $4.26 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 67.5 million shares of Common Stock of the Company may be granted to employees (including officers of the Company). Options granted thereunder may be exercised in annual increments commencing one year after the date of grant and become fully exercisable after five years. All options expire 10 years from date of grant unless otherwise terminated. Shares terminated that were unexercised are available for reissuance. As of March 31, 2003, no stock appreciation rights have been granted under this plan and 70.9 million options have been granted, including options issued that were previously terminated due to employee forfeitures. As of March 31, 2003, 21.4 million of the 31.5 million options which were outstanding under the 1991 Plan were exercisable. These options are exercisable at $7.59 – $74.69 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 337,500 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 10 years, and each option may be exercised in whole or in part on the first anniversary date of its grant. As of March 31, 2003, 222,750 options have been granted under this plan. As of March 31, 2003, all of the 13,500 options which are outstanding under the 1993 Plan are exercisable. These options are exercisable at $32.38 – $51.44 per share.

The 2001 Stock Option Plan (the 2001 Plan) was effective as of July 1, 2001. The 2001 Plan provides that non-statutory and incentive stock options to purchase up to 7.5 million shares of Common Stock of the Company may be granted to select employees and consultants. All options expire 10 years from the date of grant unless otherwise terminated. As of March 31, 2003, 6.5 million options have been granted. These options are exercisable in annual increments commencing one year after the date of grant and become fully exercisable after three years. As of March 31, 2003, 1.7 million of the 6.2 million options outstanding are exercisable. These options are exercisable at $21.89 – $23.50 per share.

The 2002 Incentive Plan (the 2002 Plan) was effective as of April 1, 2002. The 2002 Plan provides that annual performance bonuses, long-term performance bonuses, stock options, both non-qualified and incentive, restricted stock, and other equity-based awards to purchase up to 45 million shares of Common Stock of the Company may be granted to select employees and consultants. In addition, any shares of Common Stock that were approved for issuance but not awarded under the 2001 Plan will be available for issuance under the 2002 Plan. As of March 31, 2003, 1.3 million of such shares were available for future issuance. All options expire 10 years from the date of grant unless otherwise terminated. All options cannot be repriced pursuant to the provisions of the 2002 Plan. As of March 31, 2003, 6.5 million options have been granted. These options are exercisable in annual increments commencing one year after the date of grant and become fully exercisable after three years. As of March 31, 2003, 6.5 million options are outstanding, none of which are exercisable.

The 2002 Compensation Plan for Non-Employee Directors (the 2002 Director Plan) was effective as of July 1, 2002. The 2002 Director Plan provides for each director to receive annual director fees in the form of deferred shares and automatic grants to purchase 6,750 shares of Common Stock of the Company, up to a total of 650,000 shares to be granted to eligible Directors. Pursuant to the 2002 Director Plan, the exercise price shall be the FMV of a share as of the date of grant. The option period shall not exceed 10 years, and each option may be exercised in whole or in part on the day before the next succeeding annual meeting. As of March 31, 2003, there were 54,000 options outstanding under the 2002 Director Plan, of which 6,750 options were exercisable at an exercise price of $11.04 per share. As of March 31, 2003, a total of 32,696 deferred shares have been awarded to eligible Directors in connection with annual director fees.

As of March 31, 2003, 3.5 million of the 3.6 million options outstanding related to acquired companies' stock plans are exercisable at $3.27– $53.36 per share. Options granted under these acquired companies' plans become exercisable over periods ranging from one to five years and expire 10 years from the date of grant.

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

	2003		2002		2001	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Beginning of year	46.9	$28.83	48.5	$28.71	47.6	$28.39
Granted	8.6	16.06	4.5	21.90	11.1	27.01
Exercised	(5.3)	5.82	(3.2)	12.40	(4.5)	9.93
Terminated	(2.0)	33.06	(2.9)	32.88	(5.7)	37.28
End of year	48.2	28.74	46.9	28.83	48.5	28.71
Options exercisable at end of year	26.9	$31.19	25.5	$24.77	23.4	$20.72

Consistent with historical practice, all options granted in fiscal years 2003, 2002, and 2001 were at an exercise price equivalent to the FMV at the date of grant, except that of the 8.6 million shares granted in fiscal year 2003, 2.0 million shares were issued to senior management at a weighted-average exercise price that was 50% higher than the FMV on the date of grant.

The following table summarizes information about these plans as of March 31, 2003 (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
$ 2.26 –$10.00	1.8	0.7 years	$ 7.53	1.8	$ 7.53
10.01 – 20.00	10.8	6.9 years	15.95	4.2	19.30
20.01 – 30.00	20.1	6.9 years	25.53	9.2	25.95
30.01 – 40.00	6.4	4.4 years	35.82	5.3	35.68
40.01 – 50.00	3.1	4.5 years	46.92	3.1	46.99
50.01 – 74.69	6.0	6.3 years	51.88	3.3	52.04
	48.2			26.9	

The Company maintains the Year 2000 Employee Stock Purchase Plan (the Purchase Plan) for all eligible employees. Under the terms of the Purchase Plan, employees may elect to withhold between 1% and 25% of their base pay through regular payroll deductions, subject to Internal Revenue Code limitations. Shares of the Company's Common Stock may be purchased at six-month intervals at 85% of the lower of the FMV on the first or the last day of each six-month period. During fiscal years 2003, 2002, and 2001, employees purchased 1.3 million, 0.7 million, and 0.7 million shares, respectively, at average prices of $12.40, $21.91, and $25.21 per share, respectively. As of March 31, 2003, 27.4 million shares were reserved for future issuance.

Under the 1998 Incentive Award Plan (the 1998 Plan), a total of four million Phantom Shares, as defined in the 1998 Plan, were available for grant to certain of the Company's employees from time to time through March 31, 2003. Each Phantom Share is equivalent to one share of the Company's common stock. Vesting, at 20% of the grant amount per annum, is contingent upon attainment of specific criteria, including an annual Target Closing Price (Price) for the Company's Common Stock and the participant's continued employment. The Price is based on the average closing price of the Company's Common Stock on the New York Stock Exchange for the 10 days up to and including March 31 of each fiscal year. The Price for the first tranche was met on March 31, 2000, and the Company began to recognize a non-cash charge over the employment period (approximately $2 million, $3 million, and $2 million for the fiscal years ended March 31, 2003, 2002, and 2001, respectively). The Price was not met on March 31, 2003, 2002, or 2001 for the fourth, third, and second tranches, respectively. If the remaining fifth tranche vests, the annual non-cash charge will increase. Since the price of any future vested Phantom Shares is undetermined, any incremental expense is unknown. As of March 31, 2003, 389,610 Phantom Shares have not been forfeited and are outstanding under the 1998 Plan.

Effective April 1, 2003, the Company will charge to expense the computed value of all newly granted stock options over the vesting period. The options' fair value at the date of grant will be calculated using the fair value-based methodology under SFAS No. 123, as amended by SFAS No. 148.

All stock plans of the Company have been approved by the stockholders.

Note 10 — Profit Sharing Plan

The Company maintains a defined contribution 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 base compensation. The matching contributions to the CASH Plan totaled approximately $12 million, $12 million, and $11 million for the fiscal years ended March 31, 2003, 2002, and 2001, respectively. In addition, the Company may make discretionary contributions to the CASH Plan. The discretionary contributions to the CASH Plan totaled approximately $21 million, $24 million, and $24 million for the fiscal years ended March 31, 2003, 2002, and 2001, 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, as amended May 17, 1995, May 23, 2001, and November 9, 2001 (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 $150. 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 $150 exercise price. The rights, which are redeemable by the Company at one cent per right, expire in November 2006.

Note 12—Subsequent Events

In connection with the restructuring of the U.S. channel sales organization and the combination of the pre- and post-sales technical organizations in April 2003, the Company announced that it will eliminate approximately 450 positions worldwide during the quarter ending June 30, 2003. The Company will expense approximately $15 million of severance and other termination benefits in the first quarter of fiscal year 2004 related to the headcount reduction.

In April 2003, the Company received approximately $17 million in proceeds related to the sale of fixed assets. Since the carrying value of the fixed assets was zero, the entire amount resulted in a gain that was recorded in the quarter ended June 30, 2003.

Corporate Information

International Headquarters

Computer Associates International, Inc.
One Computer Associates Plaza
Islandia, NY 11749
(631) 342-6000
Fax: (631) 342-6800

Annual Meeting

The Annual Meeting of the Stockholders of Computer Associates International, Inc. will be held at the Wyndham Wind Watch Hotel located at 1717 Motor Parkway, Islandia, New York, on Wednesday, August 27, 2003 at 10:00 a.m., E.T.

Computer Associates Stock

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "CA." The following table sets forth the quarterly high and low sales prices on the New York Stock Exchange for the quarters indicated.

	HIGH	LOW
FISCAL 2003:		
Fourth Quarter	$16.00	$12.39
Third Quarter	$16.82	$ 8.66
Second Quarter	$16.22	$ 7.47
First Quarter	$22.00	$14.83

	HIGH	LOW
FISCAL 2002:		
Fourth Quarter	$38.74	$14.60
Third Quarter	$36.97	$24.37
Second Quarter	$36.28	$22.41
First Quarter	$38.06	$25.07

On March 31, 2003, the closing price for the Company's Common Stock on the New York Stock Exchange was $13.66. The Company currently has approximately 9,000 stockholders of record.

On May 13, 2003, the Company declared its regular, semi-annual cash dividend of $.04 per share to stockholders of record on June 19, 2003, and payable on July 7, 2003. The Company has paid cash dividends in July and January of each year since July 1990.

Independent Auditors

KPMG LLP
345 Park Avenue
New York, NY 10154

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 11749

General Company information and quarterly earnings releases can be obtained via the Internet (**ca.com**) or by contacting Investor Relations at (631) 342-5601, by Fax at (631) 342-4854, or by email at **cainvestor@ca.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 address or telephone number below.

Transfer Agent

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

Mellon Investor Services, LLC
85 Challenger Road
Ridgefield Park, NJ 07660
(800) 244-7155 or (201) 329-8660
Hearing Impaired: (800) 231-5469
melloninvestor.com

Mellon Investor Services offers Investor Service Direct, a service that allows U.S. registered shareholders to access their accounts online. Shareholders can: view account information, obtain dividend payment information, request a stock certificate, or print a duplicate 1099 via the Internet at: **melloninvestor.com**.

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