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13 May 2006

Office of the Chief Counsel  
Division of Corporation Finance  
Securities & Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

Re: Request for no-action relief from CA, Inc.

Dear Counsel:

I write on behalf of Amalgamated Bank LongView Collective Investment Fund (the "Fund") in response to the letter dated 21 April 2006 from Lawrence M. Egan, Jr. on behalf of CA, Inc. In that letter CA requests no-action relief in connection with a shareholder proposal submitted by the Fund for inclusion in CA's proxy materials in conjunction with CA's 2006 annual meeting. For the reasons set forth below, the Fund respectfully asks the Division to deny the requested no-action relief.

The Fund's Proposal.

The Fund's resolution would, if adopted, "hereby remove from the Board of Directors Alfonse D'Amato and Lewis S. Ranieri or whichever of them should be serving as directors at the time this resolution is adopted." The resolution is proposed pursuant to section 141(k) of the Delaware General Corporation Law ("DGCL"), which expressly permits shareholders to remove directors without cause when, as here, a company elects all directors annually.<sup>1</sup>

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<sup>1</sup> Section 141(k) states in pertinent part:

Any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors, except as follows:

(1) Unless the certificate of incorporation otherwise provides, in the case of a corporation whose board is classified as provide din subsection (d) of this section, shareholders may effect such removal only for cause . . .  
[Paragraph 2 deals with removal if there is cumulative voting.]

Factual background and discussion.

As the supporting statement explains in more detail, the Fund's proposal seeks to remove those directors who were on the board of Computer Associates International (as CA was known until recently) prior to 2002.<sup>2</sup> Mr. D'Amato began service in 1999 and Mr. Ranieri in 2001. It was prior to 2002 that a serious accounting scandal began to unfold, one that would ultimately result in guilty pleas by six senior executives, including the Chief Executive Officer, the Chief Financial Officer and the General Counsel, as well as CA having to enter a Deferred Prosecution Agreement ("DPA") in 2004 in order to avoid criminal prosecution.

CA's accounting scandal became public on 29 April 2001, when *The New York Times* published a lengthy article entitled *A Software Company Runs Out of Tricks*. A copy is attached. The article recounted how CA had shown phenomenal growth over the years and managed with regularity to hit its projected earnings targets. The article suggested that "much of the growth" was a "mirage," according to over a dozen former employees and independent industry analysts, who charged that CA had "used accounting tricks to systematically overstate its revenues and profits for years." Specifically, the fifth paragraph of the article referred to the "35-day month" at the end of each quarter, referring to CA's attempts to boost operating results in a given quarter by recognizing revenue, for example, from a contract that had not been signed until several days after the quarter ended. This procedure is contrary to Generally Accepted Accounting Principles.

It is not known what the CA board of directors did in response to these revelations. It appears that management used a law firm to look into the matter, although it is not clear how aggressively the board of directors pursued the matter. As the Fund's supporting statement points out, CA has refused to make public the minutes of board of directors meeting during that crucial period.<sup>3</sup>

What is known, however, is that CA's accounting practices attracted the attention of the Department of Justice and the Commission, which undertook an investigation in early 2002 and convened a grand jury in June of that year. CA

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<sup>2</sup> We refer here to CA and Computer Associates International interchangeably, particularly as Computer Associates International was often know as "CA" prior to its name change.

<sup>3</sup> The chronology set out below relies on statements in CA's public disclosures, notably CA's 2005 proxy materials (at pp. 13-16) and the criminal information and stipulated facts filed as Exhibits B and C to the Deferred Prosecution Agreement. The DPA and relevant attachments are available at CA's web site at <http://investor.ca.com/phoenix.zhtml?c=83100&p=irol-govdeferred>.

acknowledged the existence of this investigation in a Form 8-K filed 22 February 2002, which said that CA had contacted federal investigators “in response to media reports indicating that these governmental entities had initiated an inquiry into certain of CA’s accounting practices.”

What is significant here – particularly as it relates to the conduct of the CA board – is the timing of these events. The federal investigation began shortly after accounting scandals caused Enron to collapse in the biggest bankruptcy in U.S. history. Over the next few months, WorldCom and Global Crossing would collapse as well. As all this was happening, Congress was considering remedial legislation, and hearings before the Senate Banking Committee opened the same month that CA acknowledged the federal probe. That legislative process culminated in the Sarbanes-Oxley Act, signed in July 2002. All these events took place while the two directors affected by the Fund’s resolution were serving on the CA board.

One would expect that, even before the Enron collapse shone a spotlight on the perils of aggressive accounting, the CA board would have perceived that accounting irregularities can be a serious matter and that shareholder money can be at risk unless the board moved swiftly to get to the bottom of things. That did not happen. It was not until July 2003 that the CA board decided to act. On 2 July 2003, the CA board met with counsel, who reviewed a meeting with representatives of the Justice Department and the Commission about the information being produced in the grand jury probe.<sup>4</sup> According to the minutes, the government investigators recommended that CA conduct an internal investigation and waive attorney-client and work product privileges with respect to information generated during that investigation. In a not so subtle hint, CA’s counsel warned that “a failure to conduct an internal investigation would likely be interpreted [by prosecutors] as non-cooperative and could therefore create difficulties.” Minutes at 2. The CA board then voted to have its Audit Committee conduct an investigation using independent counsel, auditors and advisors. *Id.*

With a criminal probe providing the impetus, it was only a matter of months before the CA Audit Committee “preliminarily” concluded that results needed to be restated, as it appeared that earnings for 1999 and 2000 had been restated by over \$2.2 billion because of the accounting irregularities. Several executives, including the CFO, resigned. The CFO, the General Counsel and two other executives, were subsequently indicted and pled guilty in 2004.

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<sup>4</sup> Although, as noted, CA has refused publicly to disclose its board minutes during the period, these July 2003 minutes (the “Minutes”) were publicly filed as an exhibit in support of a Government motion in the criminal case against former CEO Kumar and another executive. They are attached as an exhibit to this letter.

Unfortunately for CA shareholders, the problems did not end there. In April 2004, with the government investigation then in its third year, CA decided to demote Sanjay Kumar, the Chairman and CEO throughout this period, to the newly created position of “Chief Software Architect.” CA announced as well that it was willing to pay \$10 million to settle the government investigation – an amount identical to what CA paid to Sam Wyly, when he agreed to drop a proxy fight for seats on the CA board.

These moves prompted some measure of ridicule in the media (Mr. Kumar eventually severed all ties to CA as of 30 June 2004), but things were not over yet. On 22 September 2004 the Government filed a Deferred Prosecution Agreement with CA in the United States District Court for the Eastern District of New York. This DPA was an agreement whereby the Government would not indict CA on criminal charges if CA agreed to \$225 million in restitution to CA shareholders (a far cry from the \$10 million offered a few months earlier) and to undertake certain governance changes, including scrutiny by an Independent Examiner. The DPA, as well as a stipulation of facts that CA conceded would be admissible in any criminal trial, focused on various accounting irregularities – including the 35-day month that had first been highlighted in *The New York Times* over three years earlier.

The DPA did not end matters, for the CA scandal has had as many shoes to drop as a centipede. On the same day that the DPA was announced, the Commission charged Sanjay Kumar and CA’s former Executive Vice President for Sales with various violations of federal securities laws. On the following day the Department of Justice indicted both men on ten counts involving securities fraud and other charges. These charges came only five months after the CA board was willing to do no more than demote Mr. Kumar to the post of Chief Software Architect.

In April 2006, Mr. Kumar and Mr. Richards pled guilty to some of the criminal charges and await sentencing. It appears that the SEC civil actions against them and other CA executives continue on.

The foregoing chronology is important to place the Fund’s resolution in context. It is a cardinal principle of corporate crisis management that when bad news hits, management and the board should move aggressively to get all the news out in the open, so that the company can move on. Failure to do so – which is precisely what happened here – can make things worse for all concerned.

Here, at a time when accounting scandals were destroying shareholder value at other companies, were the subject of federal legislation, and were extensively covered in the news media, *the CA board waited more than two years before launching its own independent investigation* -- and that was undertaken only after counsel spelled out for the board that failure to do so could be construed as a failure

to cooperate with a criminal investigation.

A board's failure to move decisively can have a profoundly negative effect on shareholders. Not only is the immediate response to bad news often a drop in the stock price, but long-term recovery may not begin until there is more confidence in the stock. The sooner that recovery process can begin, the better. Progress will be needlessly detailed if management and the board dribble out bad news in stages, rather than focusing on the company's long-term growth. That is what happened at CA.

Ultimately, it is CA shareholders – particularly long-term indexed shareholders such as the Fund – who bear the burden. As the Fund's resolution points out, as of 23 March 2006 (immediately prior to the filing deadline), CA stock has trailed the S&P 500 index for the preceding one-, two- and five-year periods. As of that date, CA stock was trading ten percent below where it was a decade ago (well before the tech "bubble"), while the S&P 500 index had risen 100% over the same period.

It would not be surprising for directors who served on the board of directors of a troubled company to step down after such a scandal and let a fresh board take the reins. That has not happened at CA, where several directors who served during the critical early phase remain on the board.<sup>5</sup> It should thus not be surprising if shareholders who would like to see the value of their shares recover seek the removal of directors who had a chance to deal with the problem forcefully in 2001 and 2002 – but who failed to do so.

The issue presented here is a simple one: Will the Commission allow CA shareholders to exercise a right expressly granted by state law to remove directors, regardless of how or when those directors are elected? Or will the Commission construe its regulations to deny shareholders that right? As suggested by the prior discussion, there are sound policy reasons why shareholders should be able to express themselves on the topic. As we explain in the following section, there are compelling legal reasons for doing so as well.

### Legal analysis.

CA is seeking to omit the Fund's proposal under SEC Rule 14a-8(i)(8), which

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<sup>5</sup> We note that in public statements responding to media accounts of the Fund's resolution, CA has touted the service of the two directors covered by the Fund's resolution, praising their service in bringing the government investigation to an end. Of course, what a director may have done to rescue a bad situation is irrelevant to what he could have done to prevent the situation from spiraling out of control in the first case.

permits the exclusion of a shareholder proposal from a company's proxy materials if the proposal "relates to an election for membership on the company's board of directors or analogous governing body." CA explains that it expects the two affected directors to be nominated for an additional one-year term at the CA annual meeting in August 2006. Accordingly, CA argues, the proposal would prevent Messrs. D'Amato and Ranieri "from completing their current term as directors, and/or from serving for a new term, and would interfere with the annual shareholder election process. The Proposal, in short, relates directly to an election for membership on the Company's board of directors."

CA's argument is flawed because it misperceives some critical differences between the *election* of a director and the *removal* of a director, both under state law and under Rule 14a-8.

Under the law of Delaware (where CA is incorporated), election of directors is analytically distinct from the removal of directors, and the fact that a director may be elected to a fixed term does not degrade the ability of shareholders to remove that director. Under section 141(b) of the Delaware General Corporation Law ("DGCL"), "[e]ach director shall hold office until such director's successor is elected and qualified or until such director's earlier resignation or removal." However, a director's right to remain in office is qualified by the shareholders' right to remove that director. Under DGCL § 141(k) – which is expressly cited in the Fund's resolution – directors may be removed *without cause* at any point during their tenure when, as here, the board of directors elects all directors annually.

Thus, it seems clear that the Delaware legislature was untroubled by the fact that removal might occur close to the time that directors are elected. Indeed, CA has drafted its bylaws so that shareholders do not have the right to call a special meeting, with the result that a meeting called by the CA board is the *only* time that CA shareholders can vote on whether to remove a director. CA Bylaws, Art. II, sec. 2 ("Special meetings of the stockholders, for any proper purpose or purposes, may be called only by the Board of Directors"), Ex. 3.1 to Form 8-K (4 February 2005).

Given that CA shareholders are expressly empowered under state law to remove directors any time, why then should the Commission interpret the (i)(8) exclusion to prevent such action? The concern cited by CA – that a vote on removing directors would somehow "interfere" with the election process – ignores the fact that the (i)(8) exclusion was enacted with very different concerns in mind. In the 1976 release proposing the predecessor version of the (i)(8) exclusion, the Commission suggested that "with respect to corporate elections," this exclusion "is not the proper means for conducting campaigns or effecting reforms in elections since other proxy rules . . . are applicable thereto." Release No. 12598, 1976 WL 160410 (7 July 1976). The reference is apparently to regulations dealing with proxy solicitations

for candidates being nominated for the board of directors in contested election situations. Apart from obligations imposed under state law, those rules require a party soliciting proxies for such candidates to print proxy materials that meet the requirements of Rule 14A by giving information about the candidates, the participants in the solicitation and related data, so that shareholders can review the competing proxy materials and make an informed choice as to who should run their company. See, e.g., Rule 14a-4(b)(2) (proxy materials must identify candidates); Rule 14a-101, Item 7 (specifying information to be disclosed “[i]f action is to be taken with respect to the election of directors”).

The Division has expressed a concern about whether shareholders might be able to skirt rules of the sort just cited by nominating candidates through Rule 14a-8 or proposing procedures for the inclusion of shareholder-nominated candidates in company-prepared proxy materials. See *Unocal Corp.*, 1990 SEC No-Act. LEXIS 183 (6 February 1990) (proxy access procedure is “a matter more appropriately addressed under Rule 14a-11 [now 14a-12]”); *BellSouth Corp.*, 1998 SEC No-Act. LEXIS 151 (4 February 1998). More specifically, the Division has expressed concern that such provisions may lead to “contested elections” that may not be subject to the regulatory constraints required in election contests. E.g., *Sears, Roebuck & Co.* (28 February 2003); *AOL Time Warner Inc.* (28 February 2003). Any concern about encouraging “contested elections” is simply misplaced in this context, given that under Delaware law, a vote to remove a director does only that without implicating the electoral process.<sup>6</sup> This is yet another way that removing directors is analytically distinct from electing them.

Thus, whatever specific rules may apply to the *election* of directors, the pertinent provisions of Rule 14A and Schedule 14A do not address resolutions seeking to *remove* directors. If a shareholder wants to mount an independent solicitation to remove specified directors, he or she would not have to make the types of Schedule 14A disclosures that are required when a candidate is being nominated for election to the board. Nor do the rules governing presentation of one’s voting options on the proxy card treat the removal of directors as similar in character to the election of directors. A proposal to remove a director or directors is treated as a single “matter” to be voted under Rule 14a-4(a)(3) (a proxy card must simply identify “each separate matter intended to be acted upon”). By contrast, Rule 14a-4(a)(4) requires an opportunity to vote yes, no, or abstain as to “each separate matter referred to therein as intended to be acted upon, *other than elections to office*” (emphasis added), as to which SEC rules require that shareholders be given a chance to vote for each nominee separately or as a bloc.

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<sup>6</sup> Under DGCL § 141(b), a director who is removed from office may not “hold over” until his or her successor is selected. Removal is effective immediately.

Thus, the SEC's rule have never viewed solicitations aimed at removing a director as requiring the same treatment that is required for proposals to elect directors.<sup>7</sup> Thus, allowing proposals to remove directors on a company-prepared ballot would not interfere with other proxy solicitation rules because no other rule specifically addresses director removal. Under the circumstances, it cannot be said that a proposal to remove directors somehow "relates to" the sort of election contests that the Commission apparently had in mind in the 1976 rulemaking. Nor can it be said that a vote on whether to remove directors "interferes with" the election of directors, particularly when CA has drafted its bylaws to permit the introduction of a director removal resolution *only* at the annual meeting or at special meetings that CA's board may see fit to convene. Any "interference" with CA elections is of the sort that CA is willing to tolerate, having drafted its bylaws that way.

In making these arguments, we are of course aware of the no-action letters that CA cites in its letter to the Division.<sup>8</sup> We have reviewed those letters, as well as letters that predate the ones cited, and we acknowledge that CA has correctly characterized the results reached by the Division there. We submit that those letters should not be viewed as precedential here for several reasons.

First, it does not appear that the proponents submitted legal argument in any of those cases that explained how Delaware law recognizes a clear dichotomy between election to office and removal from office. Given the lack of counter-arguments on this key legal point, the most that can be said of the cited letters is that the company sustained its burden under Rule 14a(g). They do not compel the result that CA seeks here.

Second, none of the letters analyzed our point that SEC rules fail to treat proposals to remove directors as subject to the heightened disclosure and other requirements that are imposed on solicitations involving elections to office. It thus cannot be said that shareholder proposals under Rule 14a-8 would interfere and possibly conflict with a separate set of regulatory requirements.

Third, the fact that this Fund's proposal will be voted at an annual meeting

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<sup>7</sup> We acknowledge of course that if the Fund or any other proponent of a resolution to remove directors decided to solicit support for its resolution through "Dear Shareholder" letters or otherwise, the proponent would be subject to generally applicable requirements, such as the prohibition on materially false or misleading statements in Rule 14a-9.

<sup>8</sup> *Fresh Brands, Inc.* (7 January 2004); *Lipid Sciences, Inc.* (2 March 2002); *Mesaba Holdings, Inc.* (5 March 2001); *NetCurrents, Inc.* (25 April 2001); *J.C. Penney Co., Inc.* (19 March 2001); *Second Bancorp, Inc.* (12 February 2001).



where the candidates are standing for re-election has no bearing on the proper interpretation of Rule 14a-8. As noted above, CA has arranged its governance structure so as to limit the exercise of shareholder rights in this fashion. Moreover, the issues in question are straight-forward: A shareholder who wishes to re-elect a director being challenged can vote for the nominee and against the shareholder proposal, and the nominee will be elected.

Ironically, the converse is not true, which is an additional policy reason for not construing Rule 14a-8(i)(8) as CA argues. CA operates under a plurality election system, under which any nominee whose seat is not contested may be elected with one vote, even if all other shares are voted "withhold." CA does not have a "majority election" policy or bylaw under which directors who fail to achieve a majority of the votes cast must tender their resignation. Thus, the only way that shareholders may remove a CA director, short of mounting an independent solicitation, is by exercising their rights under DGCL § 141(k).

Simply put, the Fund is not asking the Commission or the Division to adopt any new rules, procedures or substantive rights in this area. State law provides CA shareholders with remedies that do not implicate existing SEC regulations and that allow shareholders to decide things for themselves without government interference. All the Fund is seeking is that the Commission allow shareholders decide for themselves whether directors who had a chance to stem the losses at CA four and five years ago should remain in office at this time.

Conclusion.

For these reasons, the Fund respectfully asks the Division to deny the no-action relief requested by CA.

Thank you for your consideration of the matters raised in this letter. Please do not hesitate to contact me directly if you have any questions or if there is further information that we can provide.

Very truly yours,



Cornish F. Hitchcock

cc: Lawrence M. Egan, Jr., Esq.

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**HEADLINE:** A Software Company Runs Out of Tricks;  
The Past May Haunt Computer Associates

**BYLINE:** By ALEX BERENSON

**BODY:**

LOOMING above the Long Island Expressway in Islandia, N.Y., the steel-and-glass headquarters of Computer Associates certainly looks solid.

After all, since 1976, Computer Associates has grown from a three-person start-up into the world's fourth-largest independent software company. Led by Charles B. Wang, its chairman and founder, it has bought hundreds of smaller rivals, gaining a choke hold on an obscure but lucrative corner of the industry. Today, it has 18,000 employees and is the dominant supplier of mainframe utility software, the programs that help big computers run smoothly.

Along the way, Computer Associates has become a financial giant and made Mr. Wang very rich. In the fiscal year ended in March 2000, Computer Associates reported profits of \$696 million on sales of \$6.1 billion, five times the sales and profits it posted a decade earlier. It has a market value of \$20.3 billion, more than Nike or Lockheed Martin. Mr. Wang, who came to the United States from China at the age of 8, owns shares and options worth almost \$1.1 billion, according to the company's most recent proxy. Last year, Mr. Wang and Sanjay Kumar, the company's chief executive, bought the New York Islanders hockey team for \$187.5 million.

But much of the growth that has enriched Mr. Wang was a mirage, according to more than a dozen former employees and independent industry analysts.

Computer Associates, they say, has used accounting tricks to systematically overstate its revenue and profits for years. The practices were so widespread that employees joked that C.A. stood for "Creative Accounting," and that March, June, September and December, when fiscal quarters end, had 35 days, giving the company extra time to close sales and book revenue.

While reporting rising revenue and profits to Wall Street, Computer Associates has infuriated clients with high prices and poor technical support. Its heavily marketed efforts to diversify out of the mainframe business have been a painful failure, former employees and customers say.

Over the years, it has gained a reputation as a callous employer that dismisses workers without warning while top executives take home eight- and sometimes nine-figure pay packages. And it has so angered I.B.M., which makes most of the mainframes that its software supports, that I.B.M. is accusing Computer Associates of charging too much for its products. I.B.M. is now developing its own rival software.

Now, Computer Associates' past may have caught up with it.

The New York Times April 29, 2001 Sunday

The company declined to make Mr. Wang or Mr. Kumar available for comment and asked that questions about its accounting practices be sent in writing. It then declined to answer more than a dozen questions sent by e-mail.

Big acquisitions were key to the accounting maneuvers, employees and analysts say. And after two decades of buying competitors, Computer Associates has essentially exhausted the pool of takeover targets.

As measured by standard accounting rules, Computer Associates' sales have fallen almost two-thirds over the last six months. To cover that, the company has begun presenting its financial results in a way that confuses even the Wall Street analysts who follow it.

The company's stock has been strong this year. But within the information technology industry, its problems are no secret. "C.A.'s got a particular challenge ahead of them," said William Snyder of the Meta Group, a 600-employee consulting company that advises companies about information technology. "They have two to three years to turn it around."

To be sure, complaints about Computer Associates' prices and customer support have been around almost as long as the company, and it has always outlasted its detractors. But if former employees' claims are accurate, the company faces a serious crisis.

These employees declined to speak for the record. The company has a well-deserved reputation for having a fierce legal department. Since the beginning of 2000, it has been either a plaintiff or defendant in three dozen federal lawsuits, on issues ranging from commission disputes to discrimination claims.

But, given anonymity, people who worked in sales, accounting and marketing units at Computer Associates explained how the company inflated its reported revenues in a way that made it look as if new products were selling better than they were. The company's public financial statements support their claims, they said.

The proof, in other words, is in the numbers.

ON April 16, Computer Associates reported another banner quarter.

"New Business Model Rules; Q4 Rocks," it said proudly in a news release outlining its results for the three months ended March 31. The company appeared untouched by the slowdown in technology spending that has hurt other big software companies like Oracle.

Computer Associates said that on a "pro forma, pro rata" basis, its revenue had risen to \$1.44 billion for the quarter, from \$1.39 billion in the period a year earlier. Profits were 47 cents a share, it said, up from 39 cents a share.

During a conference call later, Mr. Kumar, the chief executive, and Ira Zar, the chief financial officer, accepted analysts' congratulations.

"Today really is a great day for us at Computer Associates," Mr. Kumar said.

He attributed the company's strong pro forma results to a new software licensing model that it unveiled with great fanfare on Oct. 25. The company promised that its "new business model" would allow it to offer customers more flexible contract terms, including month-to-month licenses.

In addition, the new model would help Computer Associates by giving it a more predictable revenue stream, the company said. Previously, it struggled each quarter to close enough large deals to meet Wall Street's expectations and discounted its software heavily as the end of each quarter approached.

"The new business model turned out to be a competitive advantage for us," Mr. Kumar said in the conference call. Wall Street agreed. Over the next three days, the company's stock soared \$7.41, to \$37, a gain of 25 percent. After falling steeply from its January 2000 high of \$75 to \$18.13 in December, the stock has rebounded strongly this year, closing on Friday at \$35.25.

But the last line of the April 16 news release told a different story.

There, Computer Associates reported its revenue and income according to "generally accepted accounting principles," the standard that companies are required to use in filings with the Securities and Exchange Commission to calculate results. By those rules, revenue fell almost 60 percent, to \$732 million, from \$1.91 billion. After earning a profit of \$1.13 a share, or about \$700 million, last year, the company lost 29 cents a share, or about \$175 million, this year.

The New York Times April 29, 2001 Sunday

The divergence followed an equally big gap in the company's quarter ended Dec. 31. For that period, the company reported pro forma revenue of \$1.4 billion and profits of \$247 million, while by the stricter standards it had revenue of \$783 million and a loss of \$342 million.

Computer Associates is not the only company to highlight pro forma results -- which offer investors an alternative, usually more favorable, way to look at results -- and to play down standard figures. Even so, its last two quarterly reports were extraordinary. Many companies that make use of pro forma accounting offer a detailed road map connecting those figures to standard results. Computer Associates did not. Nor have analysts been able to decipher how the company is reporting its numbers.

"The pro formas are very difficult to fathom," said Norma Schroder of Gartner Dataquest, a leading technology consulting firm. "I've spent many hours with the financial statements, and I'm still having problems understanding it."

The company says its pro forma numbers more accurately reflect its results now that it has changed its licensing terms. But customers and competitors say the company continues to use old sales tactics and to offer old contract terms.

"I have not heard anything that we would be paying monthly," said Andy Olivenbaum, who is negotiating a new license for Florida's Northeast Regional Data Center, which processes records for the state.

"Certainly out in the field they're still selling the way they always sold," said Bob Beauchamp, president and chief executive of BMC Software, a rival mainframe software company. "To my knowledge, we have not run into this, quote, new model."

Former employees and analysts have a very different explanation for the company's effort to focus Wall Street on its "new business model." After years of inflating revenue and profits, Computer Associates has finally run out of accounting maneuvers, they say. Now, they add, it hopes to persuade analysts to ignore its standard accounting results while it unravels the mess it has created.

UNDERSTANDING how Computer Associates is said to have pumped up its revenue requires a bit of background about the way software is sold. Big software companies usually offer clients software for a large initial fee that enables them to use it for a year, followed by annual fees to continue using it and receive product upgrades and technical support. The annual fees are usually 15 to 20 percent of the first year's fee. Customers can also sign a long-term contract and spread the initial fee, plus the annual fees, over the term of the contract. The fees increase along with the power of the computers used to run the software.

For accounting purposes, the crucial issue that determines whether Computer Associates, or any software company, can immediately book the fees as revenue is whether the fees are classified as license or maintenance charges. (When the fees are supposed to be paid is nearly irrelevant, accounting experts say.)

If the fees are called maintenance, then accounting rules require software companies to book them a little at a time over the life of the contract. But if they are considered license fees, then under some circumstances the companies can book them immediately, even if they are to be paid over a period of many years.

By categorizing fees as related to licenses, instead of maintenance, Computer Associates could inflate its revenues in any given quarter, at the expense of future quarters. And, subject to outside auditors' approval, it had considerable discretion over whether to classify fees as license or maintenance.

For at least a decade, the company has taken full advantage of that discretion, former employees say. When Computer Associates bought other software vendors, it would try to persuade their existing customers to "reroll," or extend, their license and maintenance agreements for as long as 10 years. It then classified most of the fees from the extended agreements as new license revenue and booked it immediately.

Other software companies are more conservative in the way they split license and maintenance fees. For example, BMC Software classifies all the fees it charges after the first year of long-term contracts as maintenance fees, and books them over time.

"There's a dirty little truth about the mainframe business," said a former Computer Associates executive who worked in its interBiz division. "There's not a whole lot of new mainframes going in, so a lot of what's being booked as new revenue is taking an existing contract that's expiring and adding years on to it. It's rerolling a contract."

The New York Times April 29, 2001 Sunday

More than a dozen other former employees confirmed that account. "What C.A.'s going to do is say, 'We're going to give you a long-term deal here,'" another former executive said. "They hire young, cute girls to basically resell maintenance contracts."

Sometimes, that tactic backfired. George Allen Papapetrou, a systems programmer for the school board of Alachua County, Fla., recalled that about six years ago, the company sent a saleswoman who was "a very attractive young woman, but she knew nothing about mainframes." Mr. Papapetrou added, "Most of us are geeky-type people, so we'll appreciate the looks, but we certainly don't appreciate the lack of knowledge. I felt sorry for her."

REROLLS were not Computer Associates' only accounting maneuver, former employees and analysts say. Wall Street, which knew mainframes were steadily losing market share to "client server" systems made by companies like Sun Microsystems, wanted the company to prove it could compete in that arena. In that battle, Computer Associates' most important software product was Unicenter, later called Unicenter TNG, which in theory lets companies map and control their entire computer infrastructure.

Computer Associates had difficulty winning clients for Unicenter. In part, its problems stemmed from its history of buying smaller companies, firing their support staffs and raising fees for customers who wanted to buy more powerful computers. Those moves increased revenue and profits but alienated customers.

"I don't think it's any secret that a lot of us, especially in mainframe stuff, are not C.A. fans," said Doug Fuerst, a software consultant in Brooklyn whose clients have included big financial services companies. At technology conferences, when people were asked if they were trying to drop "one or more C.A. products, probably 95 percent of the hands go up in the room," he said.

Mr. Papapetrou said the Alachua school board now uses nine Computer Associates programs, compared with 13 four years ago, paying about \$20,000 a year, down from \$30,000. "We've been steadily trying to eliminate C.A. products," he said.

Unicenter has another drawback. Its complexity makes it difficult to install, and most companies are not able to operate it successfully, said Donna Scott, a Gartner analyst. Both inside and outside Computer Associates, Unicenter is derisively called "shelfware," or software that is bought but never used.

In fact, while Computer Associates sometimes issues news releases highlighting Unicenter clients, it is hard to find major companies using it. Those that Computer Associates has publicly identified include Bradlees, the discount chain that is now being liquidated, and the New Pig Corporation, in Tipton, Pa., which Computer Associates calls "a leading provider of cleaning products and maintenance solutions for industrial facilities."

Unicenter and Jasmine ii, another product that Computer Associates has advertised heavily, "are pretty hard to find in the wild," said Herbert VanHook, senior vice president at the Meta Group.

Yet Computer Associates has steadily reported increases in its Unicenter revenue. In fiscal 1999, it said in an S.E.C. filing that Unicenter accounted for one-fourth of its overall revenue. By last year, Unicenter and other nonmainframe products accounted for half the company's overall contract revenue, it said.

It may appear paradoxical that customers would pay for software that did not work. The explanation, former employees and analysts say, is that the company often offered Unicenter free in the maintenance rerolls it offered. In deals called "wrap and rolls," it would then allocate a portion of the revenue to Unicenter, enabling it to show sales growth to Wall Street.

"Sometimes the deals that were made, if you're using these products, we're going to throw in this for free," Ms. Scott said. "It doesn't mean it's going to get implemented."

All of this explains a puzzling trend in Computer Associates' financial statements. At most big software companies, maintenance fees account for more than one-quarter of overall revenue. For example, SAP, which has just passed Computer Associates to become the third-largest independent software company, reported maintenance revenue of 485 million euros, or about \$440 million, nearly one-third of its overall revenue, for the three months ended March 31. And, not surprisingly, maintenance fees generally rise along with license fees.

Indeed, several years ago, Computer Associates' company results were in line with industry standards. In 1992, it reported maintenance fees of \$585 million, about 39 percent of its overall revenue of \$1.51 billion. The next year, overall revenue climbed 22 percent, to \$1.84 billion, while maintenance revenue rose 15 percent, to \$672 million.

The New York Times April 29, 2001 Sunday

Then something changed. Over the next seven years, overall revenue skyrocketed, as the company made several major acquisitions. In fiscal 2000, its overall revenues reached \$6.1 billion, more than triple the level seven years earlier.

Yet over the same period, maintenance revenue grew only 30 percent, to \$877 million. As a result, in fiscal 2000, maintenance accounted for only 14 percent of revenue.

Put another way, Computer Associates' maintenance rose only \$200 million in seven years, even though two companies it bought over that span -- Legent and Sterling Software -- had each reported more than \$200 million in maintenance revenue in the last year they were independent.

IT is not clear whether the way Computer Associates prepared its financial statements broke any accounting rules. Both Ernst & Young, which audited the company until 1999, and KPMG, its current auditor, declined comment on Computer Associates' practices.

But there is no doubt that rerolls and wrap-and-rolls shifted future fees into current reported revenue, pumping up the present at the expense of the future. And once the company had rerolled an old contract, it could not reroll it again for several years. So to keep reporting growth, employees say, the company needed to find a steady supply of new contracts to turn over.

So the company began buying ever-bigger companies. In 1995, it bought Legent for \$1.8 billion in cash, at the time the largest takeover in the history of the software business. The next year, it acquired Cheyenne Software for \$1.2 billion in cash. In July 1999, Computer Associates bought Platinum for \$3.5 billion in cash. And last year, it picked up Sterling for \$4 billion, its biggest acquisition yet.

Now Computer Associates has few targets left. Of remaining independent mainframe software companies, the only ones of any size are Compuware and BMC. Both are smaller than Computer Associates, and mainframe users, who say Computer Associates already has a monopoly in many products, would object if it tried to buy either one.

Its core franchise, meanwhile, faces a powerful challenge from I.B.M., which says Computer Associates is hurting its sales of new mainframes. Computer Associates' fees rise as its clients install faster computers, so a company that buys new I.B.M. hardware must also pay much higher fees for software that is sometimes decades old.

Other software vendors also raise fees when clients install new hardware, but Computer Associates' price increases are excessive, I.B.M. asserts, especially since the company provides little support. After years of asking Computer Associates to cut prices, I.B.M. has decided to develop its own utilities and compete head to head.

"In the last three years we've been systematically upping our investments," said Steve Mills, head of I.B.M.'s software unit, which has annual sales of \$13 billion. "This is our business that they are damaging."

JUST before midnight on Monday, July 3, 2000, as most Wall Street analysts were enjoying a four-day holiday weekend, Computer Associates announced that its revenues and profits would fall far short of expectations. On Wednesday, July 5, when stock markets reopened for trading, angry investors sent its stock down \$21.63, or 42 percent, to \$29.50. The sell-off shaved more than \$12 billion from Computer Associates' market value.

Three months later, the company announced plans to switch to its "new business model" and discouraged analysts from judging its results by standard accounting rules.

So far, Wall Street has complied. But as other companies have found, investors are apt to punish companies if they learn that their results are not what they seem.

URL: <http://www.nytimes.com>

**GRAPHIC:** Photos: Led by Sanjay Kumar, left, chief executive, and Charles Wang, chairman and founder, Computer Associates has grown enormously. (Kevin P. Coughlin for The New York Times)(pg. 1); Although they are hockey novices, Sanjay Kumar, left, and Charles Wang decided to buy the New York Islanders last year for \$187.5 million. (Kevin P. Coughlin for The New York Times)(pg. 11) Chart: "Pay for Performance?" Top executives at Computer Associates have been richly rewarded since 1995, although the company's stock has lagged behind other software companies and the broader market. Change in value since 1995 MAY 21, 1998 Three senior executives receive 20.25 million shares worth about \$1.1 billion. The grant prompts shareholder lawsuits, which are settled when the executives

The New York Times April 29, 2001 Sunday

return 4.5 million shares. JULY 22, 1998The company warns of poor results. Analysts wonder whether it knew of the problem when the grant was awarded. JULY 5, 2000Another warning prompts a second big sell-off. Graph shows S.& P. COMPUTER SOFTWARE AND SERVICES INDEX, COMPUTER ASSOCIATES, and the S.& P. 500 INDEX figures for those dates. (Source: Bloomberg Financial Markets)(pg. 11) Chart: "Mixed Signals"Since 1992, revenue from licensing fees has grown sharply at Computer Associates, but maintenance fees have not kept pace. As a result, the company's share of revenue from maintenance fees is much lower than that of other big software companies. Former employees say that is because Computer Associates aggressively booked fees it would not receive for several years as soon as it signed contracts. MAINTENANCE FEESLICENSING FEESSERVICE FEES '92: 39%'93: 36%'94: 32%'95: 27%'96: 21%'97: 18%'98: 17%'99: 16%'00: 14% AT SIMILAR COMPANIES shows the fiscal year 2000. (SERVICE FEES NOT REPORTED SEPARATELY '92-'97)(Source: Company reports)(pg. 11)

LOAD-DATE: April 29, 2001

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July 27, 2005

By Hand

John P. Cooney, Jr., Esq.,  
Davis Polk & Wardwell,  
450 Lexington Avenue,  
New York, NY 10017.

David M. Zornow, Esq.,  
Skadden, Arps, Slate, Meagher & Flom LLP,  
4 Times Square,  
New York, NY 10036.

Re: U.S. v. Sanjay Kumar and Stephen Richards, 04 Cr. 846 (ILG)

Dear Messrs. Cooney and Zornow:

In connection with your letter request to Amy Walsh and Eric Komitce of the United States Attorney's Office for the Eastern District of New York ("USAO"), dated June 27, 2005, and based on the June 30, 2005 execution of the confidentiality agreement governing the production of materials by Computer Associates International, Inc. ("CA" or the "Company") to Sanjay Kumar and Stephen Richards, enclosed at CA-CO 0239590 through CA-CO 0239875 are additional minutes of meetings of CA's Board of Directors and Audit Committee responsive to your June 27, 2005 letter request. These minutes have been redacted for applicable privileges and immunities. We will provide you with a redaction log shortly.

\* \* \*

The enclosed materials are being provided to you pursuant to the terms of confidentiality agreement executed by you and CA on June 30, 2005. In accordance with that agreement, you should maintain the confidentiality of the enclosed materials and any other non-public materials that Sullivan & Cromwell LLP may provide to you in the future on behalf of CA. As also described in the agreement, you should not disclose the

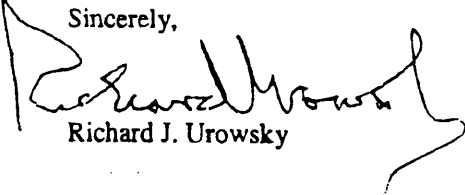


John P. Cooney, Jr., Esq.  
David M. Zornow, Esq.

-2-

enclosed materials to any third party, except to the extent that disclosure is otherwise required by law and otherwise consistent with the confidentiality agreement.

Sincerely,



Richard J. Urowsky

(Enclosures)

cc: Amy Walsh, Esq. (without enclosures)  
(United States Attorney's Office for the Eastern District of New York)

Eric R. Komitee, Esq. (without enclosures)  
(United States Attorney's Office for the Eastern District of New York)

Alexander M. Vasilescu, Esq. (without enclosures)  
(United States Securities and Exchange Commission)

Lee S. Richards, Esq. (without enclosures)  
(Richard, Spears, Kibbe & Orbe)

Kenneth V. Handal, Esq. (without enclosures)  
Jeffrey E. Livingston, Esq. (without enclosures)  
(Computer Associates International, Inc.)

Board of Directors

July 2, 2003

A meeting of the Board of Directors of Computer Associates International, Inc. was held by conference telephone, beginning at 7:10 P.M. on July 2, 2003.

The following directors participated in the meeting:

Russell Artzt	Robert E. La Blanc
Kenneth Cron	Jay W. Lorsch
Alfonse M. D'Amato	Lewis S. Ranieri
Gary J. Fernandes	Walter P. Schuetze
Sanjay Kumar	Alex Serge Vieux

constituting all of the directors.

Also present were Martin Lipton, Esq., John Savarese, Esq., and Warren Stern, Esq., partners of Wachtell, Lipton, Rosen & Katz, litigation counsel to the Corporation; Scott F. Smith, Esq., a partner of Covington & Burling, counsel to the Corporation, and the following representatives of the Corporation: Ira H. Zar, Executive Vice President and Chief Financial Officer; Steven M. Woghin, Senior Vice President and General Counsel; and Robert B. Lamm, Corporate Secretary and Director of Corporate Governance.

Mr. Kumar, Chairman, acted as such, and Mr. Lamm acted as Secretary.

Following introductory remarks by Mr. Kumar, Mr. Savarese reviewed the background and history of the investigation of the Corporation being conducted by the Securities and Exchange Commission and the Department of Justice, including the extensive documentation produced by the Corporation in response to government subpoenas. He also provided a general overview of the information contained in such documentation regarding the manner in which the Corporation had processed contracts during the periods in question, and he summarized the reactions of the SEC and Justice Department to such information.

Mr. Vieux joined the meeting during the foregoing report.

Mr. Savarese then reported on a May 2003 meeting with the government representatives conducting the investigation. During the meeting, the representatives had suggested that the Corporation consider whether to conduct an internal investigation to ascertain the accuracy of its financial statements. In addition, in a subsequent telephone conference with the government representatives in June, the representatives had requested that (1) the Corporation waive any claims of attorney-client and attorney work product privilege that might otherwise apply to the information produced in connection with such investigation and (2) three employees of the Corporation, including Mr. Zar, agree to be interviewed by the governmental authorities and to retain separate counsel in connection therewith.

Mr. Savarese informed the Board that the three employees had been identified as subjects of the investigation and that they were in the process of retaining separate counsel. He also advised the Board of his firm's recommendation that the Audit Committee conduct an investigation along the lines suggested by the government representatives and report the results of the investigation to the SEC and the Justice Department.

*Confidential Treatment  
Requested by CA*

CA-CO 0239846

Board of Directors

July 2, 2003

Mr. Savarese reviewed the actions taken by his firm to understand the Corporation's contract processing procedures and revenue recognition practices during the periods in question. He summarized such procedures and practices and how they might be viewed under generally accepted accounting principles, and he discussed the amounts of revenues recorded in certain periods that might be questioned by the SEC and/or the Justice Department. Among other things, he noted that various factors, including the manner in which the Corporation's records had been kept, made it difficult to determine when certain contracts had been signed, and that the Corporation had acknowledged that mistakes may have been made in recording certain contracts. However, he informed the Board that at this point there did not appear to be any proof of intent to manipulate revenues and that while the evidence might arguably support a claim that certain contracts had been recorded in the wrong fiscal quarter, the revenues themselves were genuine.

Mr. Savarese outlined a number of legal and practical considerations that the Board should take into account in determining whether to authorize an internal investigation. He advised that the Corporation's non-employee directors are under a legal obligation to investigate matters that raise "red flags," and he pointed out that the Corporation has repeatedly stated that it was fully cooperating with the investigation. He also referred to Mr. Kumar's public statements concerning the Corporation's aspiration to be the "gold standard" in corporate governance, and that authorizing an investigation would be consistent with that standard. Mr. Savarese also advised that governmental authorities place considerable emphasis on the cooperation of entities being investigated, and that a failure to conduct an internal investigation would likely be interpreted as non-cooperation and could therefore create difficulties.

Mr. Savarese then advised that if the Board determined to conduct an internal investigation, the following factors should be among those considered: (1) while the Board could establish a special committee to conduct the investigation, the Audit Committee would be the logical choice to do so; (2) the Audit Committee (or other committee) should retain independent counsel, with no prior involvement in the matter, and an auditing firm of its choosing, to assist it in the investigation; (3) any inquiry might turn into an investigation of individuals, who would likely have to be advised to retain their own counsel; (4) the decision as to waiving privilege would have to be discussed with independent counsel; and (5) the SEC and the Justice Department would have to be advised that an internal investigation was to be conducted.

Following Mr. Savarese's report, various directors asked questions and made comments regarding such matters as the periods on which the investigation appeared to have focused, and the impact of the Corporation's new business model on revenue recognition (in response to which Mr. Savarese advised that the new business model is not currently the subject of any discussion with the government investigators).

Mr. Kumar recommended that the Board authorize the internal investigation and discussed the reasons for his recommendation.

Following further discussion, the Board unanimously determined that the Audit Committee should conduct the investigation, with full authority to retain, at the Corporation's expense, independent counsel, auditors and any other advisors deemed necessary or appropriate to assist the Committee in connection with the investigation.

Board of Directors

July 2, 2003

Mr. Stern indicated that Wachtell, Lipton, Rosen & Katz would advise the Justice Department and the SEC that the Corporation was proceeding with the internal investigation. Mr. Lipton advised that, in view of the disclosures as to the government investigation that have already been made by the Corporation, the initiation of the internal investigation need not be disclosed at this point, but he cautioned that the question of disclosure should be revisited from time to time. Mr. Zar informed the Board that KPMG LLP, the Corporation's independent auditor, had been kept fully informed as to the status of the SEC/Justice Department investigation, including the request that an internal investigation be made.

There being no further business, the meeting adjourned.

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Robert B. Lamm  
Secretary