

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

JACK McBRIDE, on behalf of himself and all
others similarly situated,

Plaintiff,

v.

COMPUTER ASSOCIATES
INTERNATIONAL INC., CHARLES B.
WANG, SANJAY KUMAR, and IRA H. ZAR,

Defendants.

C.A. No. _____

CLASS ACTION
COMPLAINT

Plaintiff Demands
Trial By Jury

Plaintiff, by his undersigned attorneys, alleges, upon information and belief (said information and belief being based, in part, upon the investigation conducted by and through his attorney), except with respect to paragraph 16, which is alleged upon personal knowledge, as follows:

NATURE OF THE ACTION

1. This is a securities fraud class action brought on behalf of investors in securities of Computer Associates, Inc. ("CA" or the "Company") between May 28, 1999, and February 25, 2002 (the "Class Period"). Members of the Class as defined, *infra*, include, in particular, purchasers of CA common stock and call options during the Class Period, and sellers of CA put options during the Class Period (collectively referred to as "CA securities"). Defendants are CA, its Chairman, CEO and Executive Vice President.

2. The computers for which CA made software, mainframe computers, are obsolete and are being replaced by more modern hardware (such as client-server networks), referred to generally as Adistributed systems.@ Since mainframes are being replaced, software for these machines is losing market share to distributed systems. The impact on CA's revenue has been severe. This impact has been magnified because CA had always used aggressive accounting to recognize revenue from its software sales

immediately, rather than over time, so that a decrease in sales is immediately reflected by a sharp drop in revenue. The defendants engaged in a scheme to hide the disastrous effect this had on Company revenue.

3. First, beginning prior to May, 1999, the Company falsely indicated that it had penetrated the distributed systems market. The Company gave away its distributed system software free, or at nominal additional cost, to customers who were also extending mainframe software licenses, and attributed large portions of the resulting revenue to the non-mainframe products.

4. Second, beginning prior to May, 1999 and ending in October, 2000, when the Company extended a license during its term, it recognized revenue for the entire new license. Until June, 2000, when CA began using new auditors, CA did not "back out" the revenue from the unexpired portion of the old license, double-counting this revenue. After June, 2000, CA began backing out this figure in an obscure line item -- but never disclosed that this trick had caused their revenue to be overstated by more than one hundred million dollars each quarter prior June, 2000.

5. Third, to hide a disastrous drop in revenue as measured by Generally Accepted Accounting Principles ("GAAP"), the defendants announced a "new business model," which they represented involved offering more flexible licensing terms to customers.

6. In fact, the "new business model" was a cover to institute new, non-GAAP compliant accounting (which the Company called "pro forma, pro rata"), and to obscure the fact that the switch from long-term licenses to flexible subscriptions was not a pro-active move, but a symptom of the obsolescence of CA's main product line. While the stated goal of the new business model was to provide customers more flexible terms, the real purpose was to cover up the fact that CA could no longer get many of their mainframe customers to purchase the long-term licences of mainframe software which have been the Company's mainstay.

7. After the announcement of the "new business model" in October, 2000, the Company issued press releases heralding moderate growth, though the GAAP figures showed a revenue decrease of nearly sixty percent.

8. The "pro forma, pro rata" method counted revenue from old license sales in current and future periods, using old revenues to buttress the current, deteriorating sales. Defendants have attempted to have their cake and eat it, too: in a strong economy, CA recognized all the revenue from its sales immediately, even double-counting some revenue, showing impressive numbers. Now, in a sagging economy, they have obscured the real loss of sales by changing to a method of accounting so back-loaded that it does not conform to GAAP. The "pro forma, pro rata" method also did not make the distinctions between product and service revenue required by GAAP, obscuring the distinction and further hiding the deterioration in sales.

9. CA has continued to report its GAAP figures, as it is required by the Securities and Exchange Commission ("SEC") to do. Incredibly, defendants have falsely stated that the GAAP figures are not reflective of the Company's financial position, and that the "pro forma, pro rata" figures do accurately reflect the Company's financial position.

10. The Company's true condition, however, is shown by the conduct of defendants during the Class Period. After announcing the "new business model" but before reporting under it for the first time, and contrary to the Company's representations that the rosy picture created by the "pro forma, pro rata" figures was an accurate portrayal of the Company's position, the defendants engineered a clandestine, firm-wide layoff, hiding the terminations as individual performance-based firings. They fired possibly as many as a thousand employees with no severance package, and continue to deny that the firings were a layoff, even though executives involved in the layoff have confirmed it to the New York Times (as reported on March 20, 2001). More recently, the Company was forced to withdraw a planned debt offering after Moody's questioned the quality of the Company's credit. As a result, CA admits, it was forced to draw down \$600 million on one credit line to pay another.

11. The desperate cost-cutting by secret layoff, use of its new unrecognized accounting just when its revenue has dropped sharply, and the use of credit lines to service existing debt, demonstrate that defendants are keenly aware of the precarious financial condition of the Company, and have deliberately mislead the investing public.

12. The misleading picture the Company has presented has not gone unquestioned. On February 22, 2002, the Company confirmed that it was aware that both the Securities Exchange Commission and the Federal Bureau of Investigation were investigating the Company's accounting for civil, and in the case of the FBI, criminal violations. News of the criminal and civil probes, which began to surface on February 20, caused investors to flee the stock, which fell from a February 19 closing price of \$25.31 to a February 22 close of \$15.99, a drop of 36.8%.

JURISDICTION AND VENUE

13. (a) The claims alleged herein arise under sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. Section 78(i)(b), 78(t) and 78t-1(a) and pendent common law claims.

(b) Jurisdiction over the subject matter of this action is conferred upon this Court by Section 27 of the Exchange Act, 15 U.S.C. Section 78aa, 28 U.S.C. Section 1331 and 28 U.S.C. 1307.

14. This Court has personal jurisdiction over defendants pursuant to Section 27 of the Exchange Act, 15 U.S.C. Section 78aa.

15. In connection with the acts alleged herein, the defendants directly or indirectly, used the means and instrumentalities of interstate commerce, including the U.S. mails and facilities of a national securities exchange.

PARTIES

16. Plaintiff purchased shares of CA common stock during the Class Period as per the annexed certificate.

17. Defendant CA is a corporation organized and existing under and by virtue of the laws of the State of Delaware. The Company's principal executive offices are located within this District at One Computer Associates Plaza, Islandia, New York 11788-7000. CA designs, develops, markets, licenses and supports a wide range of integrated computer software products.

The Individual Defendants

18. Defendant Charles B. Wang ("Wang") was CA's Chief Executive Officer from 1976 to July 2000, and remains Chairman of its Board, a post he has held since 1980.

19. Defendant Sanjay Kumar ("Kumar") is CA's Chief Executive Officer. He was CA's President and Chief Operating Officer from January 1994 to July, 2000. He was the Company's Executive Vice President of Operations from January 1993 to December 1993, Senior Vice President of Planning from April 1989 to December 1992 and Vice President of Planning from November 1988 to March 1989.

20. Defendant Ira H. Zar ("Zar") is the Company's Executive Vice President of Finance and Chief Financial Officer. Messrs. Wang, Kumar, and Zar are sometimes referred to herein collectively as the "Individual Defendants."

FACTUAL ALLEGATIONS

21. CA historically employed very aggressive software accounting, booking revenue from renewals of old license agreements up front as a matter of course, and pursuing a policy of acquisition which, together with its revenue recognition techniques, produced very high revenue figures in recent years.

22. However, CA's core product was software for mainframe computers, which are being replaced by more modern computer hardware, such as so-called "client-server" networks. These newer systems are referred to by the umbrella term **A**distributed systems.@

23. Faced with the erosion of its core market, the Company employed a scheme to obscure the downward trend, and the resulting collapse of the Company=s sales. First, beginning not later than May, 1999, CA created the impression that its revenue growth was sustainable, by falsely claiming that the Company had transitioned from its mainframe core business to selling software for distributed systems.

24. Starting at the same time, the Company also boosted its revenue by extending contracts in the middle of their term, booking all the revenue from the new sale of a software license, but not writing down the revenue from the overlapping period for which the Company had recognized revenue under the old license. This tactic double-counted revenue for the overlap in the license periods. CA did not begin to write down the overlap in licenses until June, 2000, when the Company began using new auditors.

25. Finally, to hide the disastrous drop which has accompanied the contraction in its sales, the Company instituted a new business model involving sales of flexible subscription agreements instead of fixed-term licenses. This new business model covered the Company's inability to continue selling long-term licenses for mainframe software. To permit the Company to perform this maneuver without alerting the market to the actual deterioration in its financial condition, the Company began releasing non-GAAP compliant financial results, which used revenue booked in prior periods to obscure a dramatic drop in new sales.

CA's Historical Accounting Practices

26. As further described below, CA's historical accounting practice was to "re-roll" contracts, counting the extension of old licenses as new sales, and recognizing all or nearly all of the revenue immediately. CA also used the re-rolling technique with licenses to customers of newly acquired companies, extending the licenses of the companies it had just purchased and recognizing the sale as new revenue.

27. As the New York Times reported on April 29, 2001:
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.

28. Using this model, CA posted impressive revenue numbers:

29. Furthermore, under this model, CA managed to recognize far more of its revenue immediately than is typical for software companies, and recorded far less maintenance revenue as a proportion of its total. As the New York Times reported on April 29, 2001 (Business Section, Front Page):

. . .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.

30. For at least ten years, CA employed the re-rolling technique, recognizing revenue immediately from the sale of licenses with durations as long as ten years. Again, the New York Times explained succinctly:

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.

31. CA's use of this technique is confirmed by its own former employees, speaking to the New York Times on condition of anonymity:

"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."

32. CA pursued a vigorous policy of expansion in the 1990's, buying nearly every independent maker of mainframe software, and in the process becoming the world's fourth largest independent software company.

33. When CA purchased a company, it would attempt to extend their existing software contracts. When it was successful in doing so, Computer Associates would recognize the extension as though it were the sale of a new license, and would accordingly recognize the revenue as a lump sum in the quarter the deal was signed.

Wrap-and-Roll

34. The hardware for which CA has historically made software, mainframe computers, are rapidly losing market share to distributed systems.

35. Recognizing this, CA attempted to move into making software for non-mainframe systems.

36. This move has failed, a fact which the Company has concealed.

37. In order to buoy the sales of less successful non-mainframe software packages, CA would include these products at little or no additional cost with mainframe software that its customers were willing to pay for.

38. The prime example of this practice is the CA product Unicenter TNG ("Unicenter").

39. Unicenter is a software product which is supposed to allow the user to control an enterprise's entire computer network, distributed across many different types of computers.

40. Unicenter has failed to attract many adherents, due partly to its complexity, and partly to strong enmity towards CA from users of the client-server systems Unicenter is made for. In the words of industry analyst Herbert VanHook of Meta Group, as reported in the New York Times on April 29, 2001, Unicenter is "pretty hard to find in the wild."

41. CA's Jasmine ii, another non-mainframe product, has similarly failed to find a user base, according to the April 29 Times article.

42. Despite the fact that very few customers are actually using its non-mainframe software, CA reports that non-mainframe products accounted for approximately half the Company's product revenue in 2000.

43. Former CA employees, again speaking anonymously to the New York Times (reported April 29, 2001), explained the paradox:

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 this in for free," Ms. Scott [Donna Scott, an industry analyst with Gartner Group] said. "It doesn't mean it's going to get implemented."

44. On April 30, 2001, CA made available on its web site a seven-page response to the Times article of April 29, dismissing the Times article in the strongest terms as inaccurate and untrue. In that response, CA argued that its Unicenter product was in fact used by many of the companies that purchased it, but did not deny that Unicenter and other distributed systems software was included with extensions of mainframe software licenses, at little or no additional cost.

45. The effect of the "wrap and roll" contracts was to create the misleading impression that there was demand for the Company's non-mainframe products, and that they were selling on their own, being implemented and gaining momentum.

Double-Counting Revenue From Re-Rolled Contracts

46. From at least May 28, 1999, through the release of its 2000 Form 10-K on June 9, 2000, the Company reported revenues from new license agreements in violation of GAAP. When the Company re-rolled a license during its term, the license revenue for the entire new contract was recognized. However, no charge was taken for the portion of the old contract remaining when the license was extended. Since the entire license fee had been recognized at the outset for that original term, recognizing the new contract without deduction effectively double-counted the overlap between the two terms.

47. By way of example, if a client with a five-year license signed a ten-year deal in year three of its original contract, the entire ten-year fee was booked by CA. However, the entire five year fee

had been booked at the signing of the five-year license. CA had recognized fifteen years of license fees on a thirteen year total license, double-counting the two years of unexpired license on the old contract.

48. In July, 2000, the Company changed the practice. Beginning in the First Quarter of Fiscal 2000, the period ended June 30, 2000, the Company backed out the double-counted revenue, calling it "Expanded Contract Cost." CA's Forms 10-Q from July 2000 until the "new business model" was adopted reported "net revenue," but gave a parenthetical, larger number for the "contract value." The "contract value" is the total face value of the contracts, the number which was reported as revenue during Fiscal 1999 and 2000. The Company's press releases include both "net revenue" and "total contract value" in the table or results of operations, listing the difference as "expanded contract cost."

49. The exact amount of the misrepresentation is known only for Fiscal Year ("FY") 2000, because the Company recalculated the FY 2000 quarterly figures for comparison with its FY 2001 quarterly figures. The recalculated numbers, with the double-counted revenue eliminated, appear in the Company's Form 10-Q filings for the first, second the third quarters of FY 2001. Comparing the revised figures for those filed with the SEC for the interim quarters of FY 2000, it is apparent that the double-counted revenue, amounting to hundreds of millions, was included in all the Company's revenue figures prior to the filing of the 2000 Form 10-K.

50. The table below shows the figures originally reported as revenue in the Company's FY 2000 press releases, and the figures for the same periods recalculated to exclude the double-counting, as given in the respective Forms 10-Q for the 2001 Fiscal Year.

51. CA changed auditors for the 2000 annual audit. The Company had previously used Ernst & Young as its auditors, but KPMG performed the 2000 year-end audit, and has audited CA's books since. Despite using the double-counting figures for all its interim reports in FY 2000, the 2000

Form 10-K Consolidated Statement of Operations, for the first time, lists "Contract Value" separately from revenue, and calls revenue "Net Revenue."

52. In the interim financial statements during FY 2001 (though not in the Company's Forms 10-Q for the same periods), CA lists "expanded contract cost" for its FY2001 net revenues, and for the comparable FY 2000 quarters. This figure matches the discrepancy between the originally reported revenues and those recalculated for comparison to the FY 2001 quarters.

53. According to Merrill Lynch analyst Peter Goldmacher, as reported in the Newsday Online Edition on May 11, 2001, "Expanded Contract Cost" is the remaining value of contracts renewed before their expiration, against which revenue must be netted. Goldmacher reportedly opined that this practice had "the potential effect of overstating" revenues, because in its press releases the Company gives both total contract values, and revenues net of the "expanded contract costs." Failing to remedy the double-counting at all, as Computer Associates did for Fiscal 1999 and 2000, does far more than "potentially" overstate revenues. It inflated both revenues and profits over a period of two years.

54. The reported and recalculated figures for the Fourth Quarter of Fiscal 2000 (for which there was no quarterly report) can be calculated by subtracting from the annual figures provided in the 2000 Form 10-K. From the original and recalculated revenue figures, the dollar amount and percent of revenue overstatement caused by the double-counting of the unexpired portions of re-rolled contracts can be deduced. They are as follows:

Originally Reported	\$1,222,000,000.00	\$1,605,000,000.00	\$ 1,812,000,000.00	\$ 2,127,000,000.00
Recalculated Figure	\$1,057,000,000.00	\$1,465,000,000.00	\$ 1,674,000,000.00	\$ 1,907,000,000.00
Inflation	\$ 165,000,000.00	\$ 140,000,000.00	\$ 138,000,000.00	\$ 220,000,000.00
Percentage Inflation	16%	10%	8%	12%

55. The double-counting of this revenue was in violation of GAAP, which is illustrated by the fact that the Company ceased the practice, without notice or explanation, when a new accounting firm first had to opine on the accuracy of its financial statements. Neither the 2000 Form 10-K, nor the subsequent Form 10-Q for the First Quarter of FY 2001 acknowledged that an accounting change was made.

The A New Business Model@ and "Pro Forma, Pro Rata" Accounting

56. With its mainframe software revenue dependent on acquisition and extension of old licenses, and with its non-mainframe products failing, CA could no longer count on its old techniques to show increasing revenue.

57. The result was a spectacular collapse in revenue. Revenue, as reported in conformity with GAAP, fell from \$1.548 billion in the quarter ended December 31, 1999, to \$663 million in the quarter ended December 31, 2000, a drop of 57%.

58. The defendants deliberately concealed this drop from the public by substituting a separate set of financial statements for its GAAP financials, and stating that it was doing so because of a transition to a Anew business model.@

59. In two press releases on October 24 and 25, 2000, Computer Associates announced its "new business model." CA said that, under the new model, it would offer customers more flexible terms, including month-to-month licenses.

60. The new model, according to CA, would also change its accounting, so that it would have a more predictable revenue stream. Going forward, CA would recognize revenue for product licenses under a subscription model, with the revenue spread ratably over the term of the contract -- reversing its policy of booking every possible dollar of revenue up front.

61. In fact, CA did not alter its actual sales practices or license terms. Its customers and competitors alike said as much to the New York Times:

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.

62. The actual purpose of the "new business model" is to create an excuse for CA to change its accounting practices to conceal its drastic revenue loss.

63. When CA announced its financial results for the quarter ended December 31, 2000, it was keeping two sets of financial results: one according to GAAP, and another set, which it called "pro forma, pro rata," and which used its new technique.

64. However, CA's GAAP results were not even fully comparable to the prior periods, because CA changed its accounting for new sales to a subscription model, taking revenue over time.

65. The effect of CA's new GAAP accounting is to extend recognition of its current sales of software subscriptions into the future, so that as its new sales decline, it will be able to recognize current revenue in the future. But the GAAP results can only apply this change going forward, and do not obscure the decline which has already taken place. The pro forma, pro rata accounting operates on the fiction that the Company had always operated on a subscription model, so that revenue recognized on sales of licenses from several years ago is counted in current and future quarters. This reporting does have the effect of hiding the existing decline, in addition to buoying future revenue figures.

66. As required by the SEC, CA filed a Form 10-Q for the quarter ended December 31, 2000. That Form 10Q includes both sets of financial statements.

67. In management's discussion of the GAAP revenues, which shows the huge decrease, the drop in revenue was explained away:

The decrease was a result of the Company's transition to a new business model during the third quarter of fiscal 2001 whereby clients are granted flexible contractual terms and conditions with the result that product revenue from such contracts is recognized prospectively over the term of the contracts. The new model allows customers to vary their software mix as their business needs change and provides them with the freedom to use a variety of software products during the license period. The terms of these new arrangements are structured such that product revenue is generally recognized ratably over the term of the license. Customers will benefit from these new arrangements by finding more flexibility in licensing the Company's software products, gaining an improved, cost-effective way of doing business, mapping the growth of their technology to the growth of their business, and allowing their costs to be more predictable. The new business model will improve the visibility of the Company's revenue stream and will reduce the uncertainty of quarterly revenue since revenue will be recognized ratably, rather than on a one-time basis. In the first quarter of the transition, approximately \$140 million in revenue was recognized at contract signing for contracts conforming to the Company's prior business model.

68. The defendants instead touted the second set of financial results. Under these results, the product revenue for the quarter ended December 31, 2000 was \$1,284,000,000, a moderate increase over the previous year's quarter, when revenue was \$1,140,000,000¹.

69. The actual effect of the "pro forma, pro rata" accounting can be seen in its effect on the past revenue figures. For example, under GAAP, in the quarter ended December 31, 1999, CA sold \$1.548 billion in software. Under the "pro forma, pro rata" method, in the same period, CA sold only \$1.14 billion -- a decrease of \$408 million.

70. The "pro forma, pro rata" method of calculating revenue was used to re-recognize sales from the past, spreading the revenue forward into present and future periods. The revenue from old sales, now recognized ratably, was added to the meager new sales figures, producing acceptable figures. Combined with the reduction in previous revenues, this new method also produced the illusion of growth.

71. The effect of the "pro forma, pro rata" accounting was to recognize revenues from past sales in present and future periods, obscuring a disastrous drop in revenue. The difference between the two methods can be graphically demonstrated in the following chart:

¹ (total revenue was slightly higher, encompassing some service revenue)

insert chart here

**DEFENDANTS' FALSE AND MISLEADING STATEMENTS
AND THEIR EFFECT ON CA SECURITIES**

**False and Misleading Statements
Related To the Wrap-and-Roll Contracts**

72. In a press release dated May 27, 1999, defendants stated in the sub-headline, "Client/Server Revenue Increases 29%, To \$2.5 Billion For Year." This statement was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of client/server products (that is, software for distributed systems, such as Unicenter) were artificially inflated by wrap-and-roll contracts, and were not actually experiencing growth except that artificially created by CA's wrap-and-roll scheme.

73. In the same May 27, 1999 press release, defendants went on to say:
Client/server revenue increased to \$802 million as compared to the \$640 million recorded in the prior year.

74. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of client/server products (that is, software for distributed systems, such as Unicenter) were artificially inflated by wrap-and-roll contracts, and were not actually experiencing growth except that artificially created by CA's wrap-and-roll scheme.

75. In its Form 10-K for the year ended March 31, 1999, filed on May 28, 1999, defendants stated:

Since its introduction in fiscal year 1997, Unicenter TNG(R) (The Next Generation)™ has become the industry's de facto standard for enterprise management software.

76. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of Unicenter TNG, and its other software for distributed systems, were artificially inflated by wrap-and-roll contracts, that many clients were unwilling to buy it unless it was included at substantially reduced or no cost with mainframe software, and that it was, in the words of a Meta Group

analyst (as quoted in the New York Times on April 29, 2001), "pretty hard to find in the wild." Therefore, defendants knew that the figures posted for Unicenter sales were neither reflective of demand for, nor actual use of, the product, and that it was therefore not the "*de facto* standard."

77. In a press release dated July 20, 1999, defendants stated in the first sentence:
Driven by continuing demand for client/server products and professional services, Computer Associates International, Inc. (NYSE: CA) today announced record operating results for the first quarter of fiscal Year 2000.

78. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of client/server products (that is, software for distributed systems, such as Unicenter) were artificially inflated by wrap-and-roll contracts, and were not actually experiencing growth except that artificially created by CA's wrap-and-roll scheme.

79. In the same July 20 press release, defendants stated that, "[i]n the quarter, CA saw its client/server revenue grow by 22% to \$596 million." This statement was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of client/server products (that is, software for distributed systems, such as Unicenter) were artificially inflated by wrap-and-roll contracts, and were not actually experiencing growth except that artificially created by CA's wrap-and-roll scheme.

80. In its Form 10-Q for the period ended June 30, 1999, filed on August 6, defendants stated:

Total revenue for the quarter ended June 30, 1999 increased 17% or \$175 million, over the prior year's comparable quarter. The increase was primarily attributable to growth in client/server revenue, professional services, and acquired products from Platinum. Client/server revenue accounted for approximately 49% of the Company's overall revenue for the first quarter, led by Unicenter TNG (The Next Generation), a family of integrated business solutions for monitoring and administering systems management across multi-platform environments.

81. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of client/server products (that is, software for distributed systems, such as Unicenter) were artificially inflated by wrap-and-roll contracts, and were not actually experiencing growth except that artificially created by CA's wrap-and-roll scheme, and the portion of the Company's total revenue attributed to client/server products was also artificially inflated by wrap-and-roll contracts.

82. In a press release dated October 19, 1999, defendants stated:
Software for distributed systems continued its rapid growth, increasing 35% to \$816 million in the quarter. Contributing to this growth was continuing demand for Unicenter TNG and Jasmine ii. Newly integrated Platinum products, including data warehousing, repository and IMS, DB2, and Oracle tools, also contributed to the success of the quarter.

83. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of software for distributed systems, such as Unicenter and Jasmine ii, were artificially inflated by wrap-and-roll contracts, and were not actually experiencing growth except that artificially created by CA's wrap-and-roll scheme. Defendants, knowing of the wrap-and-roll scheme, were also aware that there was little or no "continuing demand for Unicenter TNG and Jasmine ii."

84. In its Form 10-Q for the period ended September 30, 1999, filed on November 3, 1999, defendants stated:

There continues to be acceptance of the Company's enterprise licensing plans, which offer clients increased flexibility, and Unicenter TNG (The Next Generation), a family of integrated business solutions for monitoring and administering systems management across multi-platform environments.

85. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of software for distributed systems, such as Unicenter and Jasmine ii, were artificially

inflated by wrap-and-roll contracts, and were not actually experiencing growth except that artificially created by CA's wrap-and-roll scheme. Defendants, knowing of the wrap-and-roll scheme, were also aware that there was little or no "acceptance" of Unicenter, and that many clients would not purchase it unless it was provided at little or no additional cost with mainframe software.

86. In a press release dated January 26, 2000, defendants stated:
Distributed systems revenue in the quarter increased 45% from last year to \$898 million, while OS/390 revenue increased 19% to \$776 million. Revenue from distributed systems product and services accounted for 49% of total revenue. OS/390 revenue was 43% of the total.

87. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of software for distributed systems, such as Unicenter and Jasmine ii, were artificially inflated by wrap-and-roll contracts.

88. The same January 26, 2000 press release went on to quote defendant Kumar:
"Over half our revenue in the quarter was directly attributable to distributed systems products and services," said CA President and COO Sanjay Kumar. "We enjoyed tremendous competitive success in the areas of distributed systems management, Internet security, storage management and DB2/IMS tools."

89. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of software for distributed systems were artificially inflated by wrap-and-roll contracts, and that CA was not experiencing "tremendous competitive success" with its distributed systems products, but was artificially creating the appearance of such success by giving away these products with its mainframe software.

90. In its Form 10-Q for the period ended December 31, 1999, filed on February 11, 2000, defendants stated:

The product revenue achievement and growth over the prior year's comparable quarter were primarily attributable to demand for the Company's enterprise

licensing plans, offering clients increased flexibility; the addition of Platinum products; and demand for Unicenter TNG (The Next Generation), a family of integrated business solutions for monitoring and administering systems management across multi-platform environments.

These factors accounted for the increase in product revenue of approximately \$360 million in the third quarter.

91. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of software for distributed systems were artificially inflated by wrap-and-roll contracts, and that the "demand for Unicenter TNG was actually very weak, with customers unwilling to buy it unless it was included at low or no additional cost with mainframe software. Therefore, the Company's performance could not be attributed to demand for Unicenter.

92. In a press release dated May 15, 2000, defendants stated: "Distributed Systems revenue increased 43% to \$1.07 billion as compared to the \$802 million recorded in the prior year. . . ." This statement was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of software for distributed systems were artificially inflated by wrap-and-roll contracts, and were not actually experiencing growth except that artificially created by CA's wrap-and-roll scheme.

93. In its Form 10-K for the year ended March 31, 2000, filed on June 9, 2000, defendants stated:

Since its introduction in fiscal year 1997, Unicenter TNG has become the industry's *de facto* standard for enterprise management of software.

94. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of Unicenter TNG, and its other software for distributed systems, were artificially inflated by wrap-and-roll contracts, that clients were unwilling to buy it unless it was included at substantially reduced or no cost with mainframe software, and that it was, in the words of a Meta Group analyst (as

quoted in the New York Times on April 29, 2001), "pretty hard to find in the wild." Therefore, defendants knew that the figures posted for Unicenter sales were neither reflective of demand for, nor actual use of, the product, and that it was therefore not the "*de facto* standard."

95. The 2000 Form 10-K went on to say:
Total contract value for the year ended March 31, 2000 increased 29%, or \$1.51 billion, over the prior year. Excluding an approximate \$107 million negative foreign exchange impact, total contract value increased 31% to \$6.87 billion. Net revenue increased 31%, or \$1.44 billion for the year. The license revenue increase was primarily attributable to growth in distributed platform product fees principally Unicenter TNG, a family of integrated business solutions for monitoring and administering systems management across multi-platform environments, the addition of PLATINUM products and the demand for eCommerce solutions. The distributed platform accounted for 50% of the Company's overall year-to-date contract value, increasing 35%, or \$870 million, over the prior fiscal year.

96. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of software for distributed systems, including Unicenter, were artificially inflated by wrap-and-roll contracts, that both the increase in sales of distributed systems products, and their portion of the Company's overall contract value, were artificially created by the wrap-and-roll scheme, and that since the strength of distributed systems software was illusory, these sales were not responsible for CA's overall revenue growth.

97. The 2000 Form 10-K went on to say:
There was continued emphasis on adapting and enhancing products for the distributed processing environment, in particular Unicenter TNG, Jasmine ii, and Neugents, as well as the broadening of the Company's eCommerce product offerings, and additional expenses related to development efforts of products obtained through the acquisition of PLATINUM.

98. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were

aware that the sales of software for distributed systems were artificially inflated by wrap-and-roll contracts, and that CA was not experiencing success in selling these products except through its wrap-and-roll scheme. Therefore, the comments regarding "continued emphasis" on these products were false and misleading in the absence of disclosure of the truth regarding the demand for and sales of these products.

99. In its Form 10-Q for the period ended June 30, 2000, filed on August 3, 2000, defendants stated:

The distributed platform revenue accounted for approximately 53% of the Company's overall contract value for the first quarter, led by Unicenter TNG (The Next Generation), a family of integrated business solutions for monitoring and administering systems management across multi-platform environments.

100. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of software for distributed systems were artificially inflated by wrap-and-roll contracts, and that their portion of the Company's platform revenue was artificially created by the wrap-and-roll scheme.

101. In its Form 10-Q for the period ended September 30, 2000, filed on November 14, 2000, defendants stated:

License fees benefitted [sic] from higher distributed platform product fees, offset by a decrease in OS/390 product licenses. The distributed platform revenue accounted for approximately 55% of the Company's overall contract value for the second quarter, led by Unicenter TNG (The Next Generation), a family of integrated business solutions for monitoring and administering systems management across multi-platform environments.

102. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of software for distributed systems were artificially inflated by wrap-and-roll contracts,

and that both the increase in sales of distributed systems products, and their portion of the Company's overall contract value, were artificially created by the wrap-and-roll scheme.

103. In its Form 10-Q for the period ended December 31, 2000, filed on February 7, 2000, defendants stated:

There was continued emphasis on adapting and enhancing products for the distributed processing environment, in particular Unicenter TNG (The Next Generation), Jasmine ii, Neugents, as well as broadening of the Company's e-commerce product offerings, and additional expense related to development efforts of products obtained through the acquisition of Sterling.

104. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of software for distributed systems were artificially inflated by wrap-and-roll contracts, and that CA was not experiencing success in selling these products except through its wrap-and-roll scheme. Therefore, the comments regarding "continued emphasis" on these products were false and misleading in the absence of disclosure of the truth regarding the demand for and sales of these products.

105. On January 22, 2001, the Company made available on its website a supplemental information packet which discussed its financial results for the quarter ending December 31, 2000 in detail. In those materials, the Company represented that its product revenue by platform was 49% mainframe (computers using IBM's OS/390 operating system), and 42% distributed systems, as compared to the prior year's quarter, where its sales were 50% mainframe and 35% distributed systems.

106. On July 23, 2001, the Company made available on its website a supplemental information packet which discussed its financial results for the quarter ended June 30, 2001, in detail. This supplement stated that mainframe software accounted for \$690 million, or 48% of total revenue, and distributed systems software for \$659 million, or 46%.

107. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of software for distributed systems were artificially inflated by wrap-and-roll contracts,

and that both the increase in sales of distributed systems products, and their portion of the Company's overall contract value, were artificially created by the wrap-and-roll scheme.

108. On October 18, 2001, the Company made available on its website a supplemental information packet which discussed its financial results for the quarter ended September 31, 2001, in detail. This supplement stated that mainframe software accounted for \$682 million, or 47% of total revenue, and distributed systems software for \$678 million, or 47%.

109. The statement identified in the preceding paragraph was false and misleading when made for the reasons set forth in Paragraphs 34 through 45, *infra*. More specifically, defendants were aware that the sales of software for distributed systems were artificially inflated by wrap-and-roll contracts, and that both the increase in sales of distributed systems products, and their portion of the Company's overall contract value, were artificially created by the wrap-and-roll scheme.

110. These statements were materially false and misleading when made because the portion of revenue attributed to distributed system products was arbitrarily created, and these reported sales were the result of the wrap-and-roll contracts offered by CA, in which non-mainframe products were bundled with extension of mainframe software licenses at little or no additional cost.

111. The stated figures for the sales of distributed system software created the misleading impression that there was demand for these products, that they were selling independently of other products, were being implemented and were gaining market share, when in fact this was not the case.

112. The stated figures for the sales of distributed system software created the false impression that the Company had successfully escaped its dependence on the mainframe market and transitioned to selling software for distributed systems, when in fact this was not the case.

**False and Misleading Statements
Relating to Double-Counting Revenue
From Re-Rolled Contracts**

113. On May 28, 1999, CA filed its SEC Form 10-K for the year ended March 31, 1999. That filing listed the annual revenue as \$5353 million.

114. This statement was false at the time it was made because it included the entire license revenue from renewed license agreements, but did not reduce this figure by the unexpired portion of the prior license, thereby double-counting the revenue for the portion of the license which was unexpired at the time of renewal.

115. On May 27, 1999, CA issued a press release which gave the revenue for the quarter ended December 31, 1999 at \$1,629 million. For the reasons stated in the preceding paragraph, this statement was false when made.

116. On August 6, 1999, CA filed its SEC Form 10-Q for the period ended June 30, 1999. That filing listed the quarterly revenue as \$1,222 million.

117. This statement was false at the time it was made because it included the entire license revenue from renewed license agreements, but did not reduce this figure by the unexpired portion of the prior license, thereby double-counting the revenue for the portion of the license which was unexpired at the time of renewal.

118. Computer Associates later calculated what the revenue for this period would have been if the double-counting had been eliminated, and presented that figure in the Form 10-Q for the quarter ended June 30, 2000, for purposes of comparison. The correct figure thus presented was \$1,057 million. Therefore, the revenue for the First Quarter of Fiscal Year 2000 was inflated by \$165 million, and inflation of 16%.

119. On July 20, 1999, CA issued a press release which gave the revenue for the quarter ended June 30, 1999 at \$1,222 million. For the reasons stated in the preceding two paragraphs, this statement was false when made.

120. On November 3, 1999, CA filed its SEC Form 10-Q for the period ended September 30, 1999. That filing listed the quarterly revenue as \$1,605 million.

121. This statement was false at the time it was made because it included the entire license revenue from renewed license agreements, but did not reduce this figure by the unexpired portion of

the prior license, thereby double-counting the revenue for the portion of the license which was unexpired at the time of renewal.

122. Computer Associates later calculated what the revenue for this period would have been if the double-counting had been eliminated, and presented that figure in the Form 10-Q for the quarter ended September 30, 2000, for purposes of comparison. The correct figure thus presented was \$1,465 million. Therefore, the revenue for the Second Quarter of Fiscal Year 2000 was inflated by \$140 million, and inflation of 10%.

123. On October 19, 1999, CA issued a press release which gave the revenue for the quarter ended September 30, 1999 at \$1,605 million. For the reasons stated in the preceding two paragraphs, this statement was false when made.

124. On February 11, 2000, CA filed its SEC Form 10-Q for the period ended December 31, 1999. That filing listed the quarterly revenue as \$1,812 million.

125. This statement was false at the time it was made because it included the entire license revenue from renewed license agreements, but did not reduce this figure by the unexpired portion of the prior license, thereby double-counting the revenue for the portion of the license which was unexpired at the time of renewal.

126. Computer Associates later calculated what the revenue for this period would have been if the double-counting had been eliminated, and presented that figure in the Form 10-Q for the quarter ended December 31, 2000, for purposes of comparison. The correct figure thus presented was \$1,674 million. Therefore, the revenue for the Third Quarter of Fiscal Year 2000 was inflated by \$138 million, and inflation of 8%.

127. On January 26, 2000, CA issued a press release which gave the revenue for the quarter ended December 31, 1999 at \$1,812 million. For the reasons stated in the preceding two paragraphs, this statement was false when made.

128. On May 15, 2000, CA issued a press release giving the revenue for the quarter ended March 31, 2000 at \$2127 million.

129. This statement was false at the time it was made because it included the entire license revenue from renewed license agreements, but did not reduce this figure by the unexpired portion of the prior license, thereby double-counting the revenue for the portion of the license which was unexpired at the time of renewal.

130. When the Company filed its Form 10-K for the year ended March 31, 2000, the annual revenue listed was \$6,103 million, a figure which is equal to the "net revenue" figures provided for comparison in the FY 2001 Forms 10-Q, plus \$1,907. This figure reflects the correct revenue for this period, without double-counting from re-rolled licenses. Therefore, the revenue for the Fourth Quarter of Fiscal Year 2000 was inflated by \$220 million, and inflation of 12%.

**False and Misleading Statements
Related To the "New Business Model"**

131. On October 24, 2000, the Company issued a press release announcing results for the quarter ended September 30, 2000. This press release also disclosed that the Company would be moving to a new business model.

132. The October 24 press release quoted Kumar as saying:
In addition, as part of our focused effort to unlock shareholder value, we are very excited about the progressive new business model that we will unveil on Wednesday morning. This new model promises to deliver even greater long-term sustainable value for shareholders, customers and CA employees.

133. The October 25 press release contained the following statements:

As the first eBusiness solutions provider to move from an enterprise license model to a subscription license model, CA will enable clients to determine the length and dollar value of their software license and vary their software mix as their business and technology needs change. Clients will have the freedom to use a variety of software products of their choice during contracted periods-including month-to-month--and within fixed dollar values.

Clients will be able to flexibly define the length and the dollar value of their contracts, with discounts determined by both parameters. The new contracts will be supported by a simpler and shorter license agreement, further reducing the cost of doing business.

"This new model strengthens our competitive position against hardware vendors who bundle software and services, and gives us a leg up on independent software vendors who cling to the traditional enterprise model," said Kumar.

Under this model, CA will account for contracted revenue over the life of the license term, thereby generating tremendous residual value at the end of each quarter.

As clients adopt this model over time and CA shifts its operations accordingly, the accumulated residual value will grow quarter-by-quarter, thereby enhancing predictability and visibility into future performance as residual value turns into revenue month-to-month over the contract term.

To ensure that investors and other interested parties can easily compare past and future performance, CA will supply pro forma, pro rata financial information. This information will be the basis upon which CA will offer its guidance and estimates.

134. As set forth in §§ 56-71 above, these statements were all materially false and misleading. The Company's "new business model" was actually no more than a change from a front-loaded accounting system, to a back-loaded accounting system, permitting the Company to obscure an enormous decline in revenue.

135. The statements identified in § 133 above were false and misleading when made because the Company did not disclose that, in addition to creating "accumulated residual value" in the future, the new accounting method, when projected to prior periods, would count revenue from previous license sales in present and future quarters, obscuring the effect of current and future decreases in sales.

136. The statements identified in § 133 above were false and misleading when made because the Company did not disclose that the "pro forma, pro rata financial information" would recognize revenue from past license sales in present and future quarters, obscuring the effect of decreases in current sales.

137. On January 22, 2001, the Company issued a press release which gave financial results for the quarter ended December 31, 2000. The headline of this press release read, "CA BEATS Q3

EPS ESTIMATES BY \$.02" (capitalization in original). The subhead read, "Product revenue jumps 13%,
EPS Up 31% "

138. The press release began,
Reaping the benefits of an innovative business model designed to provide greater flexibility to customers, to improve revenue predictability, and to unlock shareholder value, Computer Associates International, Inc. (NYSE: CA) today reported financial results for its third fiscal quarter.
139. The January 22, 2001 press release also contained the following statements:
The results, reported on a pro forma pro rata basis, beat analysts' consensus earnings per share estimates of \$.40 by \$.02. For the quarter ended December 31, 2000, on a pro forma pro rata basis:
- # Product revenue increased 13% to \$1.284 billion from \$1.140 billion in the prior year's fiscal quarter, exceeding company estimates. Reflecting the sale of the Sterling Federal Systems Group to Northrup Grumman, professional services revenue declined by 37%. Total revenue increased 5% to \$1.404 billion from \$1.332 billion.
 - # Operating net income for the December 31, 2000 quarter increased 28 percent from the prior year's fiscal quarter to \$247 million.
 - # Third quarter operating earnings per share (diluted), exclusive of acquisition amortization effect and special charges, increased 31% to \$0.42.

CA also announced that \$629 million of the total contract value concluded in the quarter was not recognized as revenue for the quarter ending December 31, 2000. Under CA's new business model, this Residual Value will result in actual product revenue being recognized over the term of the underlying contracts.

For the nine months ended December 31, 2000 on a pro forma pro rata basis:

- # Revenue increased 7% to \$4.125 billion.
- # Operating net income increased 17% to \$677 million.
- # Operating earnings per share (diluted), exclusive of acquisition amortization effect and special charges, increased 19% to \$1.14.

Our advanced software portfolio, reputation for innovative solutions and flexible new business model is making it easier for our customers to do business with us in the New Economy."

"The residual value earned this quarter and in each quarter going forward represents an annuity to CA shareholders that transcends quarterly performance." said Kumar. "Building residual value will strengthen shareholder value through improved visibility and stability of future revenue streams."

CA's reported results are available in Table 2 of this news release. These results reflect operations in part under CA's new business model and historical business model and, therefore, make the current quarter results not comparable to historical results. For this reason, CA is providing its financial results on a pro forma pro rata basis as announced on October 25, 2000.

140. On April 16, 2001, the Company issued a press release which gave financial results for the quarter ended March 31, 2001. The headline of that press release read, "CA Says New Business Model Rules; Q4 Rocks."

141. The subheading of that press release read as follows:
Preliminary License Revenue and Operating EPS Beat Both Company and Consensus Estimates Company To Hold Webcast at 5PM EDT Today

142. The April 16 press release also contained the following statements:
The results reflect the success of the company's eBusiness strategy and customer-centric Business Model.

On a pro forma pro rata basis for the quarter ended March 31, 2001, Product revenue is estimated to be approximately \$1.338 billion, as compared with \$1.209 billion for the prior year's fourth quarter.

Total revenue is estimated to be approximately \$1.440 billion increasing from \$1.390 billion in the prior year's fourth quarter. Fourth quarter operating earnings per share (diluted), exclusive of acquisition amortization effect and special charges, are anticipated to be approximately \$.47 as compared with \$.34 in the prior year's fourth quarter.

CA also anticipates that approximately \$1.3 billion of Residual Value was concluded in the quarter. Residual Value reflects the value of contractual commitments not reported as revenue in the current quarter. Such Residual Value will be amortized into revenue in future periods.

For the fiscal year ended March 31, 2001, on a pro forma basis, the company expects to report Product revenues of approximately \$5.048 billion as compared with \$4.492 billion for the year ended March 31, 2000.

Total revenue for the full year is expected to be approximately \$5.565 billion as compared to \$5.256 billion in fiscal 2000. Operating earnings per share (diluted), exclusive of acquisition amortization effect and special charges, are anticipated to be approximately \$1.61 compared to \$1.31 for the prior year.

143. The press release quoted Kumar as saying, "We are extremely pleased with our revenue and operating EPS performance in Q4, despite difficult economic conditions."

144. Each of the statements listed in §§ 137-142 above were materially false and misleading because, as set forth in §§ 56-71 above, the Company's "new business model" was actually no more than a change from a front-loaded accounting system, to a back-loaded accounting system, permitting the Company to obscure an enormous decline in revenue.

145. The Kumar's stated satisfaction with its fourth quarter results was misleading, because neither he nor the Company discussed the financial results as calculated in conformity with GAAP.

146. The Company did provide GAAP financials in a table attached to its April 16 press release, but in the press release, the Company made the following misleading statement designed to distract the investing public from the import of those results:

These results reflect operations in part under CA's new Business Model and historical Business Model, and, therefore, make the current quarter results not comparable to historical results. For this reason, CA is providing its financial results on a pro forma, pro rata basis.

147. On October 24, before CA's first announcement of its "new business model," CA common stock closed at \$26.69 per share, on volume of 2.7 million shares, a volume generally consistent

with the preceding weeks. On the 25th of October, 2000, 9.7 million shares were traded and the stock closed at \$28.69. On the 25th, after CA explained the "new business model," 8.8 million shares changed hands, and the stock closed at \$31. In two days, the stock rose 16% on several times its normal volume.

148. The New York Times questioned CA's accounting on the front page of the Business section, on Sunday, April 29, 2001, in an article quoted extensively above. But on April 30, 2001, CA releases a seven-page response on its web site, denying the allegations of the Times article, which it said contained misleading and at times false information.

SCIENTER

149. Defendants knew, or would have known but for their reckless disregard of facts readily available to them, that the statements enumerated above were materially false and misleading when made. The new business model was approved by CA's senior management, including each of the Individual Defendants, before its adoption. CA's senior management and each of the Individual Defendants were aware that the Company's statements about the new business model were materially false and misleading.

150. CA's pro forma, pro rata unaudited accounting was planned and adopted by CA's senior management, including each of the Individual Defendants. CA's senior management and each of the Individual Defendants was aware or recklessly disregarded that the reporting of the Company's financial results under this method were materially false and misleading.

151. The decline in the Company's revenue and the failure of the Company to penetrate the distributed systems market were central to the Company's business, and senior management, including each Individual Defendants, knew of these circumstances or recklessly disregarded them.

152. As further evidence of Defendant's scienter, in order to hide from the public the deteriorating financial condition of CA, Defendants carried out the course of conduct described below:

153. According to The New York Times, reporting on March 20, 2001, CA conducted a firm-wide layoff in January, 2001 and disguised it as individual performance-based firings.

154. As early as January 19, 2001, Newsday reported that sources within the Company said layoffs had already begun, and could trim up to 20% of the Company's sales force. However, CA declined to comment.

155. According to the Wall Street Journal on March 21, 2000, the Company's workforce shrunk from 20,000 in December, 2000, to 18,000 in January. The Company explained the discrepancy, according to the Journal, as the result of divesting its Sterling subsidiary's Federal Systems Division, but that division only employed 1,200 people, leaving a discrepancy of almost a thousand people.

156. According to the New York Times on March 20, 2001, hundreds of employees around the nation were abruptly summoned into a room with their supervisor and a member of human resources, and fired. The firings were terse and apparently scripted. The employees were told that their firings were performance-based, and that they would receive no severance package.

157. However, according to the Times article, some of the dismissed employees, like Rick Sokoll of Frisco, Texas, had recently received excellent performance evaluations.

158. CA immediately denied that it had engaged in "wholesale layoffs," according to the Wall Street Journal on March 21.

159. However, about a week after the March 20 Times article, CA reconsidered its position. On March 28, the Times reported that, while CA still denied having carried out a firm-wide layoff, CA spokesman Bob Gordon said:

We are reviewing the termination of the folks who left in January to determine if anyone who was eligible for severance didn't receive it.

160. The Times stood by its original position, reiterating the allegations made by about a dozen terminated employees: that CA had disguised a firm-wide workforce reduction as unrelated performance-based firings.

161. The Times disclosed on March 28, 2001 that three of the executives involved in the layoffs had corroborated the terminated workers' accounts. The Times reported them as confirming:

The layoffs were directed by top management, they said, and were tightly scripted by the company's human

resources department so the company could avoid paying severance packages to fired employees.

162. The hidden layoffs also came after CA announced its "new business model," and before it reported the financial results for the first period following the purported change.

163. The clandestine layoff indicates that the defendants were willing to risk enormous employer liability to trim costs without disclosing to the investing public that CA needed to do so. This desperate cost-cutting technique is consistent with managers who recognize that their Company's performance is in an alarming downturn, and is not consistent with the impression of moderate growth created by the "pro forma, pro rata" financial statements.

164. Since the layoff, the Company has tried and failed to raise cash through a debt offering, and been forced to use one credit line to pay another, facts which indicate that CA's management are acutely aware of the Company's true financial condition. On February 6, 2002, the Company withdrew a planned debt offering. On February 20, 2001, amid concerns that the Company had drawn on a reserve credit line to pay operating expenses, the Company announced that, in fact, it had drawn \$600 million on one credit line to pay down another. Moody's Investor Service analyst John Moore told Dow Jones on February 21 that this was "not something you can do for quarters on end or for the whole year."

CLASS ACTION ALLEGATIONS

165. Plaintiffs bring this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons who, during the period May 28, 1999 through February 22, 2002, inclusive, purchased Computer Associates common stock or call options or sold Computer Associates put options, and who were damaged thereby (the "Class"). Excluded from the Class are the defendants, all of the officers, directors, employees and partners thereof, members of their immediate families and their legal representatives, heirs, predecessors, successors and assigns and any entity in which any of the foregoing has a controlling interest.

166. The members of the Class are so numerous that joinder of all members is impracticable. As of February 22, 2002, the Company had more than 576 million shares of its common stock outstanding. While the exact number of Class members is unknown to plaintiffs at this time and can only be ascertained through appropriate discovery, plaintiffs believe there are, at a minimum, thousands of members of the Class located throughout the United States. Throughout the Class Period, Computer Associates common stock was actively traded on New York Stock Exchange and the Company's options were traded on at least the American Stock Exchange.

167. Common questions of law and fact exist as to all members of the Class and predominate over any questions affecting solely individual members of the Class. Among the questions of law and fact common to the Class are:

- a. Whether the federal securities laws were violated by defendants' acts and omissions as alleged herein;
 - b. Whether statements made by defendants to the investing public during the Class Period misrepresented and/or omitted material facts about the financial condition of Computer Associates;
 - c. Whether defendants acted knowingly or recklessly in making materially false and misleading statements during the Class Period;
 - d. Whether the market prices of the Company's stock and options were artificially inflated or distorted during the Class Period because of defendants' conduct complained of herein;
- and

e. Whether the members of the Class have sustained damages and, if so, the proper measure of damages.

168. Plaintiff's claims are typical of the claims of the members of the Class as they and members of the Class sustained damages arising out of the defendants' wrongful conduct in violation of federal securities laws as complained of herein.

169. Plaintiff will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class and securities litigation. Plaintiff has no interests antagonistic to or in conflict with those of the Class.

170. A class action is superior to other available methods for the fair and efficient adjudication of this controversy since joinder of all members of the Class is impracticable. Furthermore, because the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for the Class members individually to redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

**PRESUMPTION OF RELIANCE:
FRAUD ON THE MARKET DOCTRINE**

171. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

a. defendants made false and misleading statements of material fact, and failed to disclose material facts, during the Class Period;

b. the misstatements and omissions were material;

c. the securities and options of the Company traded in efficient and open markets (excluding the effects of fraud): the Company was followed by numerous major analysts; the Company's common stock met the requirements for listing, and was listed and actively traded on the NYSE and its options were traded on at least the American Stock Exchange; as a regulated issuer, Computer Associates filed periodic public reports with the SEC; and Computer Associates regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services;

d. the misstatements and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and

e. Plaintiff and members of the Class purchased their Computer Associates stock and call options, or sold their Computer Associates put options, between the time defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the omitted facts.

172. Based upon the foregoing, Plaintiff and other members of the Class are entitled to a presumption of reliance upon the integrity of the market price for the Company's securities.

COUNT I
VIOLATION OF SECTION 10(b) OF THE EXCHANGE ACT AND
RULE 10b-5 OF THE SECURITIES AND EXCHANGE COMMISSION

173. Plaintiff repeats and realleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

174. This Count is asserted against the Defendants and is based upon Section 10(b) of the 1934 Act, 15 U.S.C. ' 78j(b), and Rule 10b-5 promulgated thereunder.

175. During the Class Period, the Defendants directly engaged in a common plan, scheme, and unlawful course of conduct, pursuant to which it knowingly or recklessly engaged in acts, practices, and courses of business which operated as a fraud and deceit upon plaintiff and the other members of the Class, and made various deceptive and untrue statements of material facts and 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 to plaintiff and the other members of the Class. The purpose and effect of said scheme, plan, and unlawful course of conduct was, among other things, to induce plaintiff and the other members of the Class to purchase CA common stock during the Class Period at artificially inflated prices.

176. During the Class Period, the Defendants, pursuant to said scheme, plan, and unlawful course of conduct, knowingly and recklessly issued, caused to be issued, participated in the issuance of, the preparation and issuance of deceptive and materially false and misleading statements to the investing public as particularized above.

177. As a result of the dissemination of the false and misleading statements set forth above, the market price of CA common stock was artificially inflated during the Class Period. In ignorance of the false and misleading nature of the statements described above and the deceptive and manipulative devices and contrivances employed by said Defendants, plaintiff and the other members of the Class relied, to their detriment, on the integrity of the market price of the stock in purchasing CA common stock. Had

plaintiff and the other members of the Class known the truth, they would not have purchased said shares or would not have purchased them at the inflated prices that were paid.

178. Plaintiff and the other members of the Class have suffered substantial damages as a result of the wrongs herein alleged in an amount to be proved at trial.

179. By reason of the foregoing, Defendants directly violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder in that it: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material facts 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; or (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon plaintiff and the other members of the Class in connection with their purchases of CA common stock during the Class Period.

COUNT II
For Violation Of Section 20(a) Of The Exchange Act
(Against the Individual Defendants)

180. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

181. The Individual Defendants acted as controlling persons of the Company within the meaning of section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, participation in and/or awareness of the Company's operations, and/or intimate knowledge of the Company's products, sales, accounting, plans and implementation thereof, the individual defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements that plaintiff contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

182. In particular, the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, are presumed to have had the power to control or influence the particular statements giving rise to the securities violations as alleged herein, and exercised the same.

183. By virtue of their position as controlling persons, the Individual Defendants are liable pursuant to section 20(a) of the Exchange Act. As a direct and proximate result of the wrongful conduct, plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

WHEREFORE, plaintiff, on his own behalf and on behalf of the Class, prays for judgment as follows:

A. Declaring this action to be a proper class action and certifying plaintiff as class representative under Rule 23 of the Federal Rules of Civil Procedure;

B. Awarding compensatory damages in favor of plaintiff and the other members of the Class against the Defendants for the damages sustained as a result of the wrongdoings of the Defendants, together with interest thereon;

C. Awarding plaintiff the fees and expenses incurred in this action, including reasonable allowance of fees for plaintiff's attorneys, and experts;

D. Granting extraordinary equitable and/or injunctive relief as permitted by law, equity and federal and state statutory provisions sued on hereunder, including attaching, impounding, imposing a constructive trust upon or otherwise restricting the proceeds of Defendants' trading activities or their other assets so as to assure that plaintiff has an effective remedy; and

E. Granting such other and further relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury on all issues so triable.

DATED: New York, New York
February 25, 2002

WOLF HALDENSTEIN ADLER
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