

# CA Struggles with Scandal

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If CA is working to put its scandal-ridden past behind it and move back into prominence, the recommendation by the company's Special Litigation Committee to sue former Chairman and co-founder Charles Wang for \$500 million is not likely to speed the company toward that goal.

Just over a week before the start of CA's revamped user conference, CA World, the committee released its report, which laid the blame at Wang's feet for the company's former practice of holding its books open past the end of its fiscal quarters to improperly record new contracts to meet Wall Street expectations.

At the same time, former CEO Sanjay Kumar, Wang's protégé, has agreed to pay \$52 million in restitution to shareholders as a result of the fraud. Kumar, who last year pleaded guilty to securities fraud charges, will begin serving his 12-year sentence in August.

But even if CA could win such a suit against Wang - if the company decides to follow the committee's recommendation - would it really help CA in its efforts to rebuild its credibility as a top-tier software provider?

"They don't need to be dragged back into the past. We're in an era where the whole software industry is changing so much they need to be paying attention to the future," Gartner analyst Donna Scott said.

Undoubtedly, current CEO John Swainson, at the helm since late 2004, had his eye on the future as he made sweeping changes in CA's

organizational structure, marketing and sales compensation. Swainson put more formal controls in place - something the SLC found lacking in its investigation - via an implementation of SAP's ERP (enterprise resource planning) system.

But during that time, CA has had to restate its earnings from prior years as more accounting problems were uncovered, and it saw implementation problems with the ERP system as well as glitches in sales compensation that dragged down earnings and CA's stock price.

"Swainson said they completely overhauled the controls. But he said he did all that long ago, and they keep reissuing - financial - statements," said one source close to CA, who asked not to be named. "The bottom line is, who cares? CA is no longer at the epicenter of the IT world. I don't think anyone thinks of them as being in that select circle anymore."

"CA is no longer the underpinning of our entire operation," said Sorrel Jakins, longtime CA customer and chief engineer in the Office of Information Technology Engineering at Brigham Young University in Provo, Utah.

"As we've been growing, they haven't been growing with us. Their software is more just stabilized," added Jakins, who said the university still enjoys a good working relationship with CA.

The company declined to discuss its options in a prepared statement.

"The SLC report is thorough, independent and complete. We are pleased we are moving forward and putting these historical issues behind us," a CA spokesperson said.

Should CA choose to move forward on a suit against Wang, focus could become a greater issue if CA's management is distracted by an expensive and protracted legal battle.

And many former employees and shareholders said they believe that a suit against Wang would be a losing proposition for CA. That's because Wang, worth an estimated \$925 million, never used e-mail and has nothing to document his alleged involvement in the so-called 35-day month, they say.

"They need evidentiary proof he endorsed it. Charles was never that type of individual. Decisions were made in corridors with zero traceability and always - carried out - under the direction of his lieutenants," said one former employee, who asked not to be named. "I think it will be hard to pin the tail on the donkey. There's not a lot of tangible evidence to back it up."

Should CA's board vote to sue, the outcome would likely be based on who's more credible.

"I find it hard to understand how the Special Litigation Committee could believe the information they were given was credible, when their sources were those who perpetrated the crimes at issue and then lied about them to both internal company investigators and the government," said Wang in a statement.

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