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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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UNITED STATES OF AMERICA

I N F O R M A T I O N

- against -

IRA ZAR,

Defendant.

Cr. No. 04-331(ILG)
(T. 15, U.S.C., §§ 78j(b)
and 78ff; T. 18, U.S.C.,
§§ 371, 2 and 3551 et
seq.)

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THE UNITED STATES ATTORNEY CHARGES:

INTRODUCTION

At all times relevant to this Information, unless otherwise indicated:

I. Background

A. Computer Associates

1. Computer Associates International, Inc. ("CA"), was a Delaware corporation with its headquarters and principal place of business located in Islandia, New York. CA was one of the world's leading manufacturers and distributors of computer software for use by businesses. CA's reported revenues for the fiscal year ending March 31, 1999 were \$5.253 billion. CA's reported revenues for the fiscal year ending March 31, 2000 were \$6.776 billion.

2. CA was a publicly-traded corporation, the common stock of which traded on the New York Stock Exchange. CA's

shareholders were located throughout the United States, including in the Eastern District of New York.

3. CA did not sell or transfer title to its products to its customers. Instead, CA licensed its products pursuant to license agreements by which CA's customers agreed to pay a one-time license fee and an annual usage and maintenance fee.

B. Certain Relevant Accounting Principles

4. As a public company, CA was required to comply with the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). The SEC's rules and regulations were designed to protect members of the investing public by, among other things, ensuring that a company's financial information was accurately recorded and disclosed to the investing public.

5. Under the SEC's rules and regulations, CA and its officers were required to (a) make and keep books, records and accounts which, in reasonable detail, fairly and accurately reflected the company's business transactions, including its revenues and expenses; (b) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurance that the company's transactions were recorded as necessary to permit preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP"); and (c) file with the SEC quarterly reports (on Form

10-Q) and annual reports (on Form 10-K) which included financial statements that accurately presented CA's financial condition and the results of its business operations in accordance with GAAP.

6. Under GAAP, four conditions were required to be met in order for revenue associated with a license agreement to be recognized: (a) persuasive evidence of an arrangement was required to have existed; (b) delivery of the licensed products was required to have occurred; (c) the license fee was required to have been fixed or determinable; and (d) the collectibility of the license fee was required to have been probable. When written contracts were used to memorialize a license agreement, the GAAP "persuasive evidence" criterion required the contracts to be signed by both vendor and customer. Accordingly, under GAAP, in order for CA properly to have recognized revenue from a license agreement in a particular fiscal quarter, the license agreement was required to have been signed by both CA and its customer within that quarter.

C. The Defendant

7. The defendant IRA ZAR was employed by CA from 1982 to 2003, during which time he occupied a variety of positions. From approximately June 1998 to October 2003, ZAR was CA's Chief Financial Officer ("CFO"). ZAR's duties as CFO included, but were not limited to, overseeing CA's Financial Reporting and Sales Accounting departments. During his tenure as CFO, ZAR

reported directly to CA's President, who, beginning in August 2000, also held the title of Chief Executive Officer.

D. Consensus Estimates

8. CA regularly issued public predictions at the outset of each fiscal quarter of the revenues it expected to earn during that quarter. Based in part on these predictions, professional stock analysts estimated what they believed would be CA's total revenue during the period and predicted the earnings per share of CA stock. The average of the estimates of the professional analysts was commonly referred to as the "consensus estimate."

9. CA's officers, executives and directors, including the defendant IRA ZAR, understood that CA's failure to meet or exceed the consensus estimate for a quarter would likely result in a substantial decrease in the company's stock price. For example, on July 3, 2000, CA issued a press release which reported that the company expected "financial results for the first quarter ending June 30, 2000 to be less than current Wall Street estimates." In the press release, CA cited as one of the factors contributing to its failure to meet the consensus estimate "the fact that several large contracts that were expected to close in the final days of the quarter have been delayed" On the date of the press release, which was issued after the market closed, CA's stock price closed at \$51.12

per share. On the next trading day, July 5, 2000, CA's stock price opened at \$29.00 per share, representing percentage drop of slightly more than 43 percent.

E. The Scheme to Defraud: the "35-Day Month"

10. Prior to and during CA's fiscal year 2000, which ended March 31, 2000, numerous CA officers and executives, including the defendant IRA ZAR, engaged in a systemic, company-wide practice of falsely and fraudulently recording and reporting within a fiscal quarter revenues associated with certain license agreements even though those license agreements had not in fact been finalized and signed during that quarter. This practice, which was sometimes referred to within CA as the "35-day month" or the "three-day window," violated GAAP.

11. The practice was referred to as the "35-day month" because it involved artificially extending months, primarily the last month of a fiscal quarter, for accounting purposes, beyond the true end of the month. The practice did not, however, only result in months that had, for accounting purposes, 35 days. Instead, months were often extended even longer. Nonetheless, for the sake of simplicity, the practice is referred to hereinafter as the "35-day month practice."

12. The central goal of the 35-day month practice was to permit CA to report that it met or exceeded its projected quarterly revenues and earnings when, in truth, CA had not met

its projected quarterly revenues and earnings. As a result of the practice, CA reported falsely to investors and regulators during multiple fiscal quarters, including each of the four quarters of CA's fiscal year 2000, that it had met or exceeded its consensus estimates. Indeed, in the last three quarters of fiscal year 2000 alone, CA improperly recognized and falsely reported hundreds of millions of dollars of revenue associated with numerous license agreements that had been finalized after the quarter close. In so doing, CA made misrepresentations and omissions of material fact which were relied upon by members of the investing public.

13. As part of the 35-day month practice, CA sales managers and salespeople were instructed and pressured by high-level CA executives to, among other things, back-date license agreements finalized in the days immediately following the end of a fiscal quarter to make it appear as though the agreements had been finalized before the end of that fiscal quarter.

14. As a further part of the 35-day month practice, the defendant IRA ZAR and other high- and mid-level executives at CA routinely extended CA's fiscal quarters, normally for three business days. This practice, which was often referred to as "keeping the books open," was designed and executed so that CA could falsely record and report revenues associated with back-dated license agreements finalized after the end of fiscal

quarters. The period between the true end of CA's fiscal quarter and the date on which CA's books were actually closed was referred to within CA as the "flash period."

15. As a further part of the 35-day month practice, the defendant IRA ZAR regularly met and otherwise conferred with two other high-level CA executives ("Executive #1" and "Executive #2") in the days leading up to and following the end of fiscal quarters, including during the flash period. The purpose of these meetings was to determine whether CA had generated for the quarter just ended, including during the flash period, sufficient revenues to meet the consensus estimate. In at least two quarters of CA's fiscal year 2000, ZAR and Executive #1 and Executive #2 collectively determined that the total revenue generated for the quarter was less than the consensus estimate, even after including the revenues improperly generated and recorded during the flash period. In each such instance, acting with the concurrence of Executive #1 and Executive #2, ZAR and others caused CA to keep its books open for additional days beyond even the flash period to generate sufficient revenues to meet the consensus estimate.

16. For example, on or about January 6, 2000, the defendant IRA ZAR met and conferred with Executive #1 and Executive #2 at CA's headquarters in Islandia, New York. The three executives collectively determined that, as of that date,

even including revenues from license agreements generated during the flash period, CA's total revenues were more than \$30 million below what was necessary to meet the consensus estimate for the quarter ended December 31, 1999. Later the same day, Executive #2 directed a senior CA sales manager (the "Sales Manager") to negotiate and finalize a multi-million dollar license agreement with a CA customer ("Customer #1"). On or about January 6, 2000 and January 7, 2000, the Sales Manager enticed Customer #1 into executing an approximately \$60 million license agreement by offering Customer #1 a substantial discount in the license fee. The agreement was signed on or about January 7, 2000, but backdated to make it appear as though it had been executed on December 31, 1999. ZAR and others then caused CA to recognize improperly in the fiscal quarter ended December 31, 1999 approximately \$35 million in revenue associated with the agreement. On January 26, 2000, CA issued a press release in which it falsely and fraudulently announced that it had met the consensus estimate for the quarter ended December 31, 1999.

17. Numerous CA officers and executives, including the defendant IRA ZAR, concealed the existence of the 35-day month practice from CA's outside auditors. Among other things, CA executives engaged in a practice of "cleaning up" copies of backdated license agreements before providing copies of the agreements to CA's auditors. This practice included, but was not

limited to, removing from license agreements facsimile stamps and other notations which showed the true date on which the agreements were finalized. ZAR was fully aware of and encouraged this practice, which was designed and carried out to prevent CA's auditors, and by extension the investing public, from learning of CA's failure to meet or exceed the consensus estimates for the given quarter.

F. The Investigations

18. In or about the beginning of 2002, the United States Attorney's Office for the Eastern District of New York (the "United States Attorney's Office"), the Federal Bureau of Investigation (the "FBI") and the Northeast Regional Office of the SEC began investigations into CA's accounting practices, including whether, during the late-1990s and thereafter, CA engaged in improper accounting practices with the intent to overstate its fiscal quarterly revenues to make it appear as though the company had met consensus estimates. Since June 2002, a grand jury sitting in the Eastern District of New York has been considering evidence about CA's accounting practices (these investigations are referred to collectively as the "Government Investigations").

19. In or about February 2002, CA retained a law firm (the "Company's Law Firm") to represent it in connection with the Government Investigations. Through the Company's Law Firm, CA

represented to the United States Attorney's Office and the SEC that it was committed to cooperating fully with the Government Investigations. This representation was also made publicly by CA in press releases, SEC filings and other public statements. Additionally, in a press release issued on February 20, 2002, CA denied that it had engaged in any improper accounting practices, declaring: "The reporting of our financial results has always been in accordance with applicable accounting principles."

20. Shortly after being retained in February 2002, the Company's Law Firm met with the defendant IRA ZAR and other CA executives in order to inquire into their knowledge of the practices that were the subject of the Government Investigations. During these meetings, ZAR and others did not disclose, falsely denied and otherwise concealed the existence of the 35-day month practice. Moreover, ZAR and others concocted and presented to the Company's Law Firm an assortment of false justifications the purpose of which was to counter or explain away evidence of the 35-day month practice. ZAR and others knew, and in fact intended, that the Company's Law Firm would present these false justifications to the United States Attorney's Office, the SEC and the FBI.

21. For example, during a meeting with attorneys from the Company's Law Firm, the defendant IRA ZAR and Executive #1 discussed the fact that former CA salespeople had accused CA of

engaging in the 35-day month practice. In ZAR's presence, Executive #1 falsely denied that CA had engaged in such a practice and suggested to the attorneys from the Company's Law Firm that because quarterly commissions paid to CA salespeople regularly included commissions on license agreements not finalized until after end of the quarter, the salespeople might assume, incorrectly, that revenues associated with those agreements were recognized by CA within the quarter. Executive #1 knew that this explanation was false and intended that the Company's Law Firm would present this false explanation to the United States Attorney's Office, the SEC and the FBI as part of an effort to persuade those entities that the accusations of the former salespeople were unfounded.

22. The Company's Law Firm also arranged for interviews of CA executives and employees by the United States Attorney's Office, the SEC and the FBI. For example, on or about September 6, 2002, Lloyd Silverstein, then a CA executive, was interviewed by members of the United States Attorney's Office, the SEC and the FBI. Before that interview, the defendant IRA ZAR and others met with Silverstein and encouraged him not to disclose the existence of the 35-day month practice but rather to present various false justifications. Accordingly, during his interview, Silverstein made statements which he knew to be false and otherwise concealed information which he knew to be material

to the Government Investigations.

23. In or about July 2003, the Audit Committee of CA's Board of Directors retained a second law firm (the "Audit Committee's Law Firm") to conduct an internal investigation into CA's accounting practices, focusing on the 35-day month practice. As part of its internal investigation, the Audit Committee's Law Firm conducted interviews of CA executives and employees.

24. On or about October 3, 2003, the defendant IRA ZAR was interviewed by attorneys from the Audit Committee's Law Firm. During the interview, ZAR did not disclose, but instead denied and otherwise concealed, the existence of the 35-day month practice. For example, ZAR falsely stated that, during CA's fiscal year 2000, all license agreements recognized as revenue in a given quarter were signed by the customer prior to the end of the quarter. Additionally, during the interview, ZAR did not disclose the participation of other high-level CA executives, including but not limited to Executive #1 and Executive #2, in the 35-day month practice.

25. The defendant IRA ZAR and others also met with CA executives prior to the executives being interviewed by the Audit Committee's Law Firm. ZAR and others encouraged these individuals to deny the existence of the 35-day month practice during their interviews and to offer various false justifications intended to create the appearance that CA had not engaged in

improper accounting practices.

COUNT ONE
(Securities Fraud Conspiracy)

26. The allegations contained in paragraphs 1 through 25 are realleged and incorporated as if fully set forth in this paragraph.

27. In or about and between June 1998 and December 2000, both dates being approximate and inclusive, within the Eastern District of New York and elsewhere, the defendant IRA ZAR, together with others, did knowingly and willfully, directly and indirectly, conspire:

(a) to commit fraud in connection with the purchase and sale of common stock issued by CA, in violation of Title 15, United States Code, Sections 78j(b) and 78ff, and Title 17, Code of Federal Regulations, Section 240.10b-5;

(b) to make and cause to be made false and misleading statements of material fact in applications, reports and documents required to be filed under the Securities Exchange Act of 1934 and the rules and regulations thereunder, in violation of Title 15, United States Code, Section 78ff;

(c) to falsify CA's books, records and accounts, the making and keeping of which was required by Title 15, United States Code, Section 78m(b)(2)(A) and Title 17, Code of Federal Regulations, Section 240.13b2-1, in violation of Title 15, United States Code, Sections 78m(b)(5) and 78ff; and

(d) to circumvent CA's internal accounting controls as required by Title 15, United States Code, Section 78m(b)(2)(B), in violation of Title 15, United States Code, Sections 78m(b)(5) and 78ff.

28. In furtherance of the conspiracy and to effect its objects, within the Eastern District of New York and elsewhere, the defendant IRA ZAR, together with others, committed and caused to be committed, among others, the following:

OVERT ACTS

a. On or about October 6, 1999, at CA's headquarters in Islandia, New York, the defendant IRA ZAR signed on behalf of CA an approximately \$102 million license agreement which was back-dated to make it appear as though the agreement had been executed on September 30, 1999, the last day of the second quarter of CA's fiscal year 2000.

b. On or about January 6, 2000, at CA's headquarters in Islandia, New York, the defendant IRA ZAR met with Executive #1 and Executive #2.

c. On or about January 6, 2000, Executive #2 placed a telephone call from CA's headquarters in Islandia, New York, to the CA Sales Manager.

d. In or about early-April 2000, after meeting with Executive #1 and others, the defendant IRA ZAR caused CA's books for the quarter ended March 31, 2000 to be held open in

order to allow CA to meet the consensus estimate for that quarter.

(Title 18, United States Code, Sections 371 and 3551 et seq.)

COUNT TWO
(Securities Fraud)

29. The allegations contained in paragraphs 1 through 25 and 28 are realleged and incorporated as if fully set forth in this paragraph.

30. In or about and between June 1998 and December 2000, both dates being approximate and inclusive, within the Eastern District of New York and elsewhere, the defendant IRA ZAR, together with others, did knowingly and willfully, directly and indirectly, use and employ manipulative and deceptive devices and contrivances in violation of Rule 10b-5 of the Rules and Regulations of the SEC (Title 17, Code of Federal Regulations, Section 240.10b5), in that the defendant IRA ZAR, together with others, did knowing and willfully, directly and indirectly, (1) employ devices, schemes, and artifices to defraud; (2) make untrue statements of material fact and omit to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; and (3) engage in acts, practices, and courses of business which would and did operate as a fraud and deceit upon members of the

investing public, in connection with the purchases and sales of CA common stock, and by use of interstate commerce and the mails.

(Title 15, United States Code, Sections 78j(b) and 78ff; Title 18, United States Code, Sections 2 and 3551 et seq.)

COUNT THREE
(Conspiracy to Obstruct Justice)

31. The allegations contained in paragraphs 1 through 25 are realleged and incorporated as if fully set forth in this paragraph.

32. In or about and between February 2002 and February 10, 2004, both dates being approximate and inclusive, within the Eastern District of New York and elsewhere, the defendant IRA ZAR, together with others, did knowingly, intentionally and corruptly conspire to obstruct, influence and impede official proceedings, to wit: the Government Investigations, in violation of Title 18, United States Code, Section 1512(c)(2).

33. It was a part of the conspiracy that, beginning in or about February 2002, the defendant IRA ZAR and other high-level CA executives agreed falsely to deny and otherwise conceal the existence of the 35-day month practice and to devise false justifications whose purpose was to counter or explain away evidence of the 35-day month practice. The conspirators communicated these justifications to the Company's Law Firm and the Audit Committee's Law Firm knowing and with the intent that they would, in turn, be presented to the United States Attorney's

Office, the SEC and the FBI. ZAR and others well knew and believed that these false statements, together with their concealment of material information, would have the effect of obstructing and impeding the Government Investigations.

34. It was further part of the conspiracy that, beginning in or about February 2002, the defendant IRA ZAR and others met with CA executives and employees prior to their being interviewed by the Company's Law Firm, the Audit Committee's Law Firm, the United States Attorney's Office, the SEC and the FBI, and encouraged these individuals not to disclose the existence of the 35-day month practice and to conceal its existence by presenting various false justifications for conduct that was improper. ZAR and others well knew and believed that such false statements and concealment of material information would have the effect of obstructing and impeding the Government Investigations.

35. It was a further part of the conspiracy that, on or about October 3, 2003, the defendant IRA ZAR, while being interviewed by members of the Audit Committee's Law Firm, did not disclose and otherwise concealed the existence of the 35-day month practice. ZAR well knew and believed that his false statements and concealment of material information would have the effect of obstructing and impeding the Government Investigations.

OVERT ACT

36. In furtherance of the conspiracy and to effect its objects, within the Eastern District of New York and elsewhere, the defendant IRA ZAR traveled from CA's headquarters in Islandia, New York, to the offices of the Audit Committee's Law Firm in Manhattan.

(Title 18, United States Code, Sections 371 and 3551 et seq.)

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