

UNISYS CORP
Form 10-Q
October 27, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2011

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission file number 1-8729

UNISYS CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	38-0387840 (I.R.S. Employer Identification No.)
801 Lakeview Drive, Suite 100	
Blue Bell, Pennsylvania (Address of principal executive offices)	19422 (Zip Code)
Registrant's telephone number, including area code: (215) 986-4011	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (sec. 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☒	Accelerated Filer ☐
Non-Accelerated Filer ☐ (Do not check if a smaller reporting company)	Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

Number of shares of Common Stock outstanding as of September 30, 2011: 43,337,841.

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements.

UNISYS CORPORATION

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Millions)

	September 30, 2011	December 31, 2010
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 667.3	\$ 828.3
Accounts and notes receivable, net	696.0	789.7
Inventories:		
Parts and finished equipment	35.8	44.8
Work in process and materials	30.7	44.1
Deferred income taxes	31.6	40.7
Prepaid expenses and other current assets	101.2	127.8
Total	1,562.6	1,875.4
Properties	1,293.2	1,339.0
Less-Accumulated depreciation and amortization	1,093.4	1,119.3
Properties, net	199.8	219.7
Outsourcing assets, net	143.2	162.3
Marketable software, net	129.7	143.8
Prepaid postretirement assets	35.4	31.2
Deferred income taxes	151.0	179.6
Goodwill	193.9	197.9
Other long-term assets	151.3	211.0
Total	\$ 2,566.9	\$ 3,020.9
<u>Liabilities and stockholders' deficit</u>		
Current liabilities		
Current maturities of long-term debt	\$.9	\$.8
Accounts payable	236.1	260.7
Deferred revenue	431.2	556.3
Other accrued liabilities	429.7	518.9
Total	1,097.9	1,336.7
Long-term debt	444.4	823.2
Long-term postretirement liabilities	1,388.8	1,509.2
Long-term deferred revenue	129.0	149.4
Other long-term liabilities	101.3	136.2
Commitments and contingencies		
<u>Stockholders' deficit</u>		
6.25% mandatory convertible preferred stock, net of issuance costs, shares issued: 2011; 2.6, 2010; 0	249.7	

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Common stock, shares issued: 2011; 43.7, 2010; 42.9	.4	.4
Accumulated deficit	(2,134.9)	(2,170.6)
Treasury stock, shares at cost: 2011; .3, 2010; .3	(48.0)	(46.0)
Paid-in capital	4,222.1	4,207.2
Accumulated other comprehensive loss	(2,894.8)	(2,928.3)
Total Unisys stockholders' deficit	(605.5)	(937.3)
Noncontrolling interests	11.0	3.5
Total stockholders' deficit	(594.5)	(933.8)
Total	\$ 2,566.9	\$ 3,020.9

See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Millions, except per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Revenue				
Services	\$ 876.3	\$ 855.2	\$ 2,519.3	\$ 2,597.7
Technology	143.8	105.4	349.2	377.3
	1,020.1	960.6	2,868.5	2,975.0
Costs and expenses				
Cost of revenue:				
Services	680.0	675.9	2,010.6	2,070.5
Technology	55.3	47.3	151.2	143.9
	735.3	723.2	2,161.8	2,214.4
Selling, general and administrative	153.3	142.4	446.5	458.7
Research and development	18.5	18.9	57.2	60.8
	907.1	884.5	2,665.5	2,733.9
Operating profit	113.0	76.1	203.0	241.1
Interest expense	12.5	25.0	51.7	76.8
Other income (expense), net	16.6	(.2)	(56.6)	(44.6)
Income from continuing operations before income taxes	117.1	50.9	94.7	119.7
Provision for income taxes	33.4	28.2	52.4	52.7
Consolidated income before discontinued operations	83.7	22.7	42.3	67.0
Income from discontinued operations, net of tax		6.5		73.2
Net income	83.7	29.2	42.3	140.2
Less: Net income attributable to noncontrolling interests	1.0	.9	6.6	3.3
Less: Preferred stock dividends	4.1		9.5	
Net income attributable to Unisys Corporation common shareholders	\$ 78.6	\$ 28.3	\$ 26.2	\$ 136.9
Amounts attributable to Unisys Corporation common shareholders				
Income from continuing operations, net of tax	\$ 78.6	\$ 21.8	\$ 26.2	\$ 63.7
Income from discontinued operations, net of tax		6.5		73.2
Net income attributable to Unisys Corporation common shareholders	\$ 78.6	\$ 28.3	\$ 26.2	\$ 136.9
Earnings per common share attributable to Unisys Corporation				
Basic				
Continuing operations	\$ 1.82	\$.51	\$.61	\$ 1.50

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Discontinued operations				.15	1.72				
Total		\$	1.82	\$	.66	\$	.61	\$	3.22
Diluted									
Continuing operations		\$	1.63	\$	.50	\$	.60	\$	1.47
Discontinued operations				.15	1.69				
Total		\$	1.63	\$	.65	\$	.60	\$	3.16

See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Millions)

	Nine Months Ended September 30	
	2011	2010
Cash flows from operating activities		
Consolidated net income before discontinued operations	\$ 42.3	\$ 67.0
Income from discontinued operations, net of tax		73.2
Add (deduct) items to reconcile consolidated net income to net cash provided by operating activities:		
Foreign currency transaction losses		19.9
Loss on debt extinguishment	77.6	1.4
Employee stock compensation	12.8	7.3
Company stock issued for U.S. 401(k) plan	9.6	
Depreciation and amortization of properties	50.8	58.1
Depreciation and amortization of outsourcing assets	48.2	85.4
Amortization of marketable software	50.9	46.5
Disposal of capital assets	1.0	8.2
Loss (gain) on sale of businesses and assets	.3	(65.7)
Decrease (increase) in deferred income taxes, net	33.4	(11.8)
Decrease (increase) in receivables, net	89.5	(23.2)
Decrease (increase) in inventories	21.3	(2.0)
Decrease in accounts payable and other accrued liabilities	(254.6)	(37.6)
Decrease in other liabilities	(43.2)	(35.1)
Decrease (increase) in other assets	17.6	(41.7)
Other	.2	.1
Net cash provided by operating activities	157.7	150.0
Cash flows from investing activities		
Proceeds from investments	396.9	317.5
Purchases of investments	(394.5)	(316.5)
Restricted deposits	30.1	13.9
Investment in marketable software	(36.9)	(41.8)
Capital additions of properties	(32.9)	(49.7)
Capital additions of outsourcing assets	(31.3)	(70.4)
Net proceeds from sale of businesses and assets	(15.0)	121.2
Net cash used for investing activities	(83.6)	(25.8)
Cash flows from financing activities		
Proceeds from issuance of preferred stock, net of issuance costs	249.7	
Payments of long-term debt	(462.5)	(78.0)
Proceeds from exercise of stock options	1.4	1.3
Dividends paid on preferred stock	(8.1)	
Dividend paid to noncontrolling interests	(.4)	
Financing fees	(2.2)	(.1)
Net cash used for financing activities	(222.1)	(76.8)
Effect of exchange rate changes on cash and cash equivalents	(13.0)	(6.3)

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(Decrease) increase in cash and cash equivalents	(161.0)	41.1
Cash and cash equivalents, beginning of period	828.3	647.6
Cash and cash equivalents, end of period	\$ 667.3	\$ 688.7

See notes to consolidated financial statements.

Unisys Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

In the opinion of management, the financial information furnished herein reflects all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods specified. These adjustments consist only of normal recurring accruals except as disclosed herein. Because of seasonal and other factors, results for interim periods are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities and the reported amounts of revenue and expenses. Such estimates include the valuation of accounts receivable, inventories, outsourcing assets, marketable software, goodwill and other long-lived assets, legal contingencies, indemnifications, and assumptions used in the calculation for systems integration projects, income taxes and retirement and other post-employment benefits, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

The company's accounting policies are set forth in detail in note 1 of the notes to the consolidated financial statements in the company's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission. Such Annual Report also contains a discussion of the company's critical accounting policies. The company believes that these critical accounting policies affect its more significant estimates and judgments used in the preparation of the company's consolidated financial statements. There have been no changes in the company's critical accounting policies from those disclosed in the company's Annual Report on Form 10-K for the year ended December 31, 2010.

a. On April 30, 2010, the company completed the sale of its health information management (HIM) business, and on August 31, 2010, the company completed the sale of its UK-based Unisys Insurance Services Limited (UISL) business, which provides business process outsourcing (BPO) services to the UK life and pensions industry. In connection with the sale of UISL, the company paid \$14.9 million in 2010, \$14.6 million during the nine months ended September 30, 2011 and has a payment obligation of approximately \$4.7 million to be paid next quarter.

The results of discontinued operations for the three and nine months ended September 30, 2010 are as follows (in millions of dollars):

	Three Months			Nine Months		
	Ended Total	September 30, 2010 HIM	UISL	Ended Total	September 30, 2010 HIM	UISL
Revenue	\$ 12.4	\$	\$ 12.4	\$ 94.6	\$ 42.0	\$ 52.6
Income						
Operations	\$ (2.2)	\$.2	\$ (2.4)	\$ 8.2	\$ 10.0	\$ (1.8)
Gain on sale	4.2	(.3)	4.5	69.0	64.5	4.5
	2.0	(.1)	2.1	77.2	74.5	2.7
Income tax provision	(4.5)	(4.4)	(.1)	4.0	4.1	(.1)
Income from discontinued operations, net of tax	\$ 6.5	\$ 4.3	\$ 2.2	\$ 73.2	\$ 70.4	\$ 2.8

b. Due to cumulative inflation of approximately 100 percent or more over the last 3-year period, the company's Venezuelan subsidiary has applied highly inflationary accounting beginning January 1, 2010. For those international subsidiaries operating in highly inflationary economies, the U.S. dollar is the functional currency, and as such, nonmonetary assets and liabilities are translated at historical exchange rates, and monetary assets and liabilities are translated at current exchange rates. Exchange gains and losses arising from

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translation are included in other income (expense), net. Effective January 11, 2010, the Venezuelan government devalued the Bolivar Fuerte by 50 percent by resetting the official exchange rate from 2.15 to the U.S. dollar to 4.30 to the U.S. dollar. As a result, the company recorded a foreign exchange loss in the first quarter of 2010 of approximately \$20 million. The company has used and continues to use the official exchange rate for translation purposes. At September 30, 2011, the company's operations in Venezuela had net monetary assets denominated in local currency of approximately \$19 million.

c. The following table shows how earnings per common share attributable to Unisys Corporation was computed for the three and nine months ended September 30, 2011 and 2010 (dollars in millions, shares in thousands):

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2011	2010	2011	2010
Basic Earnings Per Common Share				
Net income from continuing operations attributable to Unisys Corporation common shareholders	\$ 78.6	\$ 21.8	\$ 26.2	\$ 63.7
Income from discontinued operations, net of tax		6.5		73.2
Net income attributable to Unisys Corporation common shareholders	\$ 78.6	\$ 28.3	\$ 26.2	\$ 136.9
Weighted average shares	43,246	42,620	43,063	42,536
Continuing operations	\$ 1.82	\$.51	\$.61	\$ 1.50
Discontinued operations		.15		1.72
Total	\$ 1.82	\$.66	\$.61	\$ 3.22
Diluted Earnings Per Common Share				
Net income from continuing operations attributable to Unisys Corporation common shareholders	\$ 78.6	\$ 21.8	\$ 26.2	\$ 63.7
Add preferred stock dividends	4.1			
Net income from continuing operations attributable to Unisys Corporation for diluted earnings per share	82.7	21.8	26.2	63.7
Income from discontinued operations, net of tax		6.5		73.2
Net income attributable to Unisys Corporation for diluted earnings per share	\$ 82.7	\$ 28.3	\$ 26.2	\$ 136.9
Weighted average shares	43,246	42,620	43,063	42,536
Plus incremental shares from assumed conversions				
Employee stock plans	464	672	572	799
Preferred stock	6,913			
Adjusted weighted average shares	50,623	43,292	43,635	43,335
Continuing operations	\$ 1.63	\$.50	\$.60	\$ 1.47
Discontinued operations		.15		1.69
Total	\$ 1.63	\$.65	\$.60	\$ 3.16

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The following number of stock options and restricted stock units was antidilutive and therefore excluded from the computation of diluted earnings per share (in thousands): 2011, 2,163 and 2010, 2,489. The following number of mandatory convertible preferred stock was antidilutive for the nine months ended September 30, 2011 and therefore excluded from the computation of diluted earnings per share (in thousands): 2011, 2,588.

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d. Net periodic pension expense (income) for the three and nine months ended September 30, 2011 and 2010 is presented below (in millions of dollars):

	Three Months Ended Sept. 30, 2011			Three Months Ended Sept. 30, 2010		
	Total	U.S. Plans	Int 1. Plans	Total	U.S. Plans	Int 1. Plans
Service cost	\$ 2.3	\$	\$ 2.3	\$ 3.6	\$	\$ 3.6
Interest cost	98.1	66.0	32.1	99.0	69.1	29.9
Expected return on plan assets	(118.8)	(84.4)	(34.4)	(123.6)	(91.3)	(32.3)
Amortization of prior service cost	.2	.1	.1	.2	.2	
Recognized net actuarial loss	26.7	19.7	7.0	20.0	13.6	6.4
Net periodic pension expense (income)	\$ 8.5	\$ 1.4	\$ 7.1	\$ (.8)	\$ (8.4)	\$ 7.6

	Nine Months Ended Sept. 30, 2011			Nine Months Ended Sept. 30, 2010		
	Total	U.S. Plans	Int 1. Plans	Total	U.S. Plans	Int 1. Plans
Service cost	\$ 8.4	\$	\$ 8.4	\$ 10.8	\$	\$ 10.8
Interest cost	294.1	198.0	96.1	296.7	207.3	89.4
Expected return on plan assets	(355.9)	(253.1)	(102.8)	(370.4)	(273.8)	(96.6)
Amortization of prior service cost	.4	.5	(.1)	.4	.5	(.1)
Recognized net actuarial loss	79.2	58.9	20.3	60.2	40.8	19.4
Net periodic pension expense (income)	\$ 26.2	\$ 4.3	\$ 21.9	\$ (2.3)	\$ (25.2)	\$ 22.9

The company currently expects to make cash contributions of approximately \$115 million to its worldwide defined benefit pension plans (principally international plans) in 2011 compared with \$81.5 million in 2010. For the nine months ended September 30, 2011 and 2010, \$63.6 million and \$61.0 million, respectively, of cash contributions have been made. In accordance with regulations governing contributions to U.S. defined benefit pension plans, the company is not required to fund its U.S. qualified defined benefit pension plan in 2011.

Net periodic postretirement benefit expense for the three and nine months ended September 30, 2011 and 2010 is presented below (in millions of dollars):

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Service cost	\$.1	\$	\$.3	\$.1
Interest cost	2.4	2.7	7.3	8.0
Expected return on assets	(.1)	(.1)	(.4)	(.4)
Amortization of prior service cost	.5	.4	1.4	1.1
Recognized net actuarial loss	1.0	.9	3.0	2.8
Net periodic postretirement benefit expense	\$ 3.9	\$ 3.9	\$ 11.6	\$ 11.6

The company expects to make cash contributions of approximately \$22 million to its postretirement benefit plan in 2011 compared with \$23.9 million in 2010. For the nine months ended September 30, 2011 and 2010, \$15.1 million and \$14.8 million, respectively, of cash contributions have been made.

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e. Due to its foreign operations, the company is exposed to the effects of foreign currency exchange rate fluctuations on the U.S. dollar, principally related to intercompany account balances. The company uses derivative financial instruments to reduce its exposure to market risks from changes in foreign

currency exchange rates on such balances. The company enters into foreign exchange forward contracts, generally having maturities of one month, which have not been designated as hedging instruments. At September 30, 2011 and 2010, the notional amount of these contracts was \$103.3 million and \$36.0 million, respectively. At September 30, 2011 and 2010, the fair value of such contracts was a net loss of \$.1 million and a net gain of \$.7 million, respectively, of which \$.2 million and \$8.1 million, respectively, has been recognized in Prepaid expenses and other current assets and \$.3 and \$7.4 million, respectively, has been recognized in Other accrued liabilities in the company's consolidated balance sheet. For the nine months ended September 30, 2011 and 2010, changes in the fair value of these instruments were gains of \$1.8 million and \$.6 million, respectively, which have been recognized in earnings in Other income (expense), net in the company's consolidated statement of income. The fair value of these forward contracts is based on quoted prices for similar but not identical financial instruments; as such, the inputs are considered Level 2 inputs.

Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities. The carrying amounts of these financial assets and liabilities approximate fair value due to their short maturities. At September 30, 2011 and December 31, 2010, the carrying amount of long-term debt was less than fair value, which is based on market prices (Level 2 inputs), of such debt by approximately \$40 million and \$140 million, respectively.

f. Under stockholder approved stock-based plans, stock options, stock appreciation rights, restricted stock and restricted stock units may be granted to officers, directors and other key employees. At September 30, 2011, 4.7 million shares of unissued common stock of the company were available for granting under these plans.

The fair value of stock option awards was estimated using the Black-Scholes option pricing model with the following assumptions and weighted-average fair values:

	Nine Months Ended Sept. 30,	
	2011	2010
Weighted-average fair value of grant	\$ 20.12	\$ 17.87
Risk-free interest rate	1.71%	1.74%
Expected volatility	71.31%	72.20%
Expected life of options in years	3.62	3.63
Expected dividend yield		

Restricted stock unit awards may contain time-based units, performance-based units or a combination of both. Each performance-based unit will vest into zero to 1.5 shares depending on the degree to which the performance goals are met. Compensation expense resulting from these awards is recognized as expense ratably for each installment from the date of grant until the date the restrictions lapse and is based on the fair market value at the date of grant and the probability of achievement of the specific performance-related goals.

The company records all share-based expense in selling, general and administrative expense.

During the nine months ended September 30, 2011 and 2010, the company recorded \$12.8 million and \$7.3 million of share-based compensation expense, respectively, which is comprised of \$5.1 million and \$2.7 million of restricted stock unit expense and \$7.7 million and \$4.6 million of stock option expense, respectively.

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A summary of stock option activity for the nine months ended September 30, 2011 follows (shares in thousands):

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ in millions)
Outstanding at December 31, 2010	3,125	\$ 85.78		
Granted	617	38.41		
Exercised	(160)	8.90		
Forfeited and expired	(756)	165.12		
Outstanding at Sept. 30, 2011	2,826	58.64	2.50	\$ 5.8
Expected to vest at Sept. 30, 2011	1,187	30.98	3.65	1.9
Exercisable at Sept. 30, 2011	1,605	79.62	1.63	3.8

The aggregate intrinsic value represents the total pretax value of the difference between the company's closing stock price on the last trading day of the period and the exercise price of the options, multiplied by the number of in-the-money stock options that would have been received by the option holders had all option holders exercised their options on September 30, 2011. The intrinsic value of the company's stock options changes based on the closing price of the company's stock. The total intrinsic value of options exercised for the nine months ended September 30, 2011 and 2010 was \$4.4 million and \$5.5 million, respectively. As of September 30, 2011, \$10.5 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.9 years.

A summary of restricted stock unit activity for the nine months ended September 30, 2011 follows (shares in thousands):

	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2010	401	\$ 29.10
Granted	299	37.77
Vested	(199)	27.86
Forfeited and expired	(98)	40.50
Outstanding at Sept. 30, 2011	403	32.14

The fair value of restricted stock units is determined based on the trading price of the company's common shares on the date of grant. The aggregate weighted-average grant-date fair value of restricted stock units granted during the nine months ended September 30, 2011 and 2010 was \$11.3 million and \$7.6 million, respectively. As of September 30, 2011, there was \$8.8 million of total unrecognized compensation cost related to outstanding restricted stock units granted under the company's plans. That cost is expected to be recognized over a weighted-average period of 2.0 years. The aggregate weighted-average grant-date fair value of restricted share units vested during the nine months ended September 30, 2011 and 2010 was \$5.5 million and \$4.0 million, respectively.

Common stock issued upon exercise of stock options or upon lapse of restrictions on restricted stock units is newly issued shares. Cash received from the exercise of stock options for the nine months ended September 30, 2011 and 2010 was \$1.4 million and \$1.3 million, respectively. The company is currently not recognizing any tax benefits from the exercise of stock options or upon issuance of stock upon lapse of restrictions on restricted stock units in light of its tax position. Tax benefits resulting from tax deductions in excess of the compensation costs recognized are classified as financing cash flows.

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g. The company has two business segments: Services and Technology. Revenue classifications by segment are as follows: Services systems integration and consulting, outsourcing, infrastructure services and core maintenance; Technology enterprise-class software and servers and other technology.

The accounting policies of each business segment are the same as those followed by the company as a whole. Intersegment sales and transfers are priced as if the sales or transfers were to third parties. Accordingly, the Technology segment recognizes intersegment revenue and manufacturing profit on hardware and software shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profits on such shipments of company hardware and software to customers. The Services segment also includes the sale of hardware and software products sourced from third parties that are sold to customers through the company's Services channels. In the company's consolidated statements of income, the manufacturing costs of products sourced from the Technology segment and sold to Services customers are reported in cost of revenue for Services.

Also included in the Technology segment's sales and operating profit are sales of hardware and software sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the three months ended September 30, 2011 and 2010 was \$.7 million and \$4.9 million, respectively. The amount for the nine months ended September 30, 2011 and 2010 was \$5.4 million and \$5.4 million, respectively. The profit on these transactions is eliminated in Corporate.

The company evaluates business segment performance on operating income exclusive of restructuring charges and unusual and nonrecurring items, which are included in Corporate. Effective January 1, 2011, the company changed the measurement of segment performance that it evaluates to exclude pension income or expense. Prior periods have been reclassified to conform to the 2011 presentation. All other corporate and centrally incurred costs are allocated to the business segments based principally on revenue, employees, square footage or usage.

A summary of the company's operations by business segment for the three and nine month periods ended September 30, 2011 and 2010 is presented below (in millions of dollars):

	Total	Corporate	Services	Technology
<u>Three Months Ended Sept. 30, 2011</u>				
Customer revenue	\$ 1,020.1		\$ 876.3	\$ 143.8
Intersegment		\$ (26.4)	.9	25.5
Total revenue	\$ 1,020.1	\$ (26.4)	\$ 877.2	\$ 169.3
Operating income	\$ 113.0	\$ (6.6)	\$ 75.9	\$ 43.7
<u>Three Months Ended Sept. 30, 2010</u>				
Customer revenue	\$ 960.6		\$ 855.2	\$ 105.4
Intersegment		\$ (25.6)	1.2	24.4
Total revenue	\$ 960.6	\$ (25.6)	\$ 856.4	\$ 129.8
Operating income	\$ 76.1	\$ (1.5)	\$ 68.1	\$ 9.5
<u>Nine Months Ended Sept. 30, 2011</u>				
Customer revenue	\$ 2,868.5		\$ 2,519.3	\$ 349.2
Intersegment		\$ (70.2)	2.7	67.5
Total revenue	\$ 2,868.5	\$ (70.2)	\$ 2,522.0	\$ 416.7
Operating income	\$ 203.0	\$ (26.1)	\$ 168.2	\$ 60.9
<u>Nine Months Ended Sept. 30, 2010</u>				
Customer revenue	\$ 2,975.0		\$ 2,597.7	\$ 377.3
Intersegment		\$ (84.9)	3.6	81.3
Total revenue	\$ 2,975.0	\$ (84.9)	\$ 2,601.3	\$ 458.6
Operating income	\$ 241.1	\$.9	\$ 162.6	\$ 77.6

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Presented below is a reconciliation of total business segment operating income to consolidated income from continuing operations before income taxes (in millions of dollars):

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2011	2010	2011	2010
Total segment operating income	\$ 119.6	\$ 77.6	\$ 229.1	\$ 240.2
Interest expense	(12.5)	(25.0)	(51.7)	(76.8)
Other income (expense), net	16.6	(.2)	(56.6)	(44.6)
Corporate and eliminations	(6.6)	(1.5)	(26.1)	.9
Total income from continuing operations before income taxes	\$ 117.1	\$ 50.9	\$ 94.7	\$ 119.7

Customer revenue by classes of similar products or services, by segment, is presented below (in millions of dollars):

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2011	2010	2011	2010
Services				
Systems integration and consulting	\$ 305.8	\$ 291.5	\$ 876.7	\$ 921.9
Outsourcing	391.2	392.4	1,112.6	1,144.2
Infrastructure services	124.1	116.4	364.1	357.1
Core maintenance	55.2	54.9	165.9	174.5
	876.3	855.2	2,519.3	2,597.7
Technology				
Enterprise-class software and servers	123.4	77.0	302.6	311.0
Other technology	20.4	28.4	46.6	66.3
	143.8	105.4	349.2	377.3
Total	\$ 1,020.1	\$ 960.6	\$ 2,868.5	\$ 2,975.0

Geographic information about the company's revenue, which is principally based on location of the selling organization, is presented below (in millions of dollars):

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2011	2010	2011	2010
United States	\$ 452.8	\$ 437.7	\$ 1,177.0	\$ 1,318.5
United Kingdom	100.8	98.6	299.7	310.2
Other international	466.5	424.3	1,391.8	1,346.3
Total	\$ 1,020.1	\$ 960.6	\$ 2,868.5	\$ 2,975.0

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h. Comprehensive income for the three and nine months ended September 30, 2011 and 2010 includes the following components (in millions of dollars):

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2011	2010	2011	2010
Consolidated net income from continuing operations	\$ 83.7	\$ 22.7	\$ 42.3	\$ 67.0
Income from discontinued operations, net of tax		6.5		73.2
Total	83.7	29.2	42.3	140.2
Other comprehensive income (loss)				
Foreign currency translation adjustments	(70.8)	40.9	(45.4)	14.9
Postretirement adjustments	52.3	(25.7)	80.2	74.8
Total other comprehensive income (loss)	(18.5)	15.2	34.8	89.7
Consolidated comprehensive income	65.2	44.4	77.1	229.9
Comprehensive income attributable to noncontrolling interests	(.2)	.3	7.9	4.2
Comprehensive income attributable to Unisys Corporation	\$ 65.4	\$ 44.1	\$ 69.2	\$ 225.7

Accumulated other comprehensive loss as of December 31, 2010 and September 30, 2011 is as follows (in millions of dollars):

	Total	Translation Adjustments	Postretirement Plans
Balance at December 31, 2010	\$ (2,928.3)	\$ (604.2)	\$ (2,324.1)
Change during period	33.5	(44.4)	77.9
Balance at September 30, 2011	\$ (2,894.8)	\$ (648.6)	\$ (2,246.2)

Noncontrolling interests as of December 31, 2010 and September 30, 2011 is as follows (in millions of dollars):

	Non-controlling Interests
Balance at December 31, 2010	\$ 3.5
Net income	6.6
Translation adjustments	(1.0)
Dividends paid to non-controlling interests	(.4)
Postretirement plans	2.3
Balance at September 30, 2011	\$ 11.0

i. Cash paid during the nine months ended September 30, 2011 and 2010 for income taxes was \$63.4 million and \$32.6 million, respectively.

Cash paid during the nine months ended September 30, 2011 and 2010 for interest was \$66.3 million and \$84.5 million, respectively.

j. Effective January 1, 2011, the company adopted two accounting standards issued by the Financial Accounting Standards Board (FASB) that amend revenue recognition guidance. The first standard supersedes certain prior accounting guidance and requires an entity to allocate

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arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative standalone selling prices (i.e., the relative-selling-price method). The standard eliminates the use of the residual method of allocation and requires the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables subject to this standard. The second standard amends prior software revenue recognition accounting guidance by excluding from the scope of such prior guidance tangible products that contain both software elements and non-software elements that function together to deliver the tangible product's essential functionality. The company has adopted the new standards prospectively for revenue arrangements

entered into or materially modified on or after January 1, 2011. In certain of the company's arrangements, revenue was previously deferred for certain deliverables included in multiple element arrangements where the arrangements also included undelivered services for which the company was unable to demonstrate fair value pursuant to previous standards. The new standards require deliverables for which revenue was previously deferred to be separated and recognized as delivered, rather than combined with undelivered items and recognized over the longest service delivery period.

If the new standards were applied to transactions entered into or materially modified in the year ended December 31, 2010, it would not have resulted in a material change to the company's reported revenue for 2010. The company is not able to reasonably estimate the effect of adopting these standards on future periods as the impact will vary based on the nature and volume of new or materially modified deals in any given period.

In June 2011, the FASB issued authoritative guidance that amends previous guidance for the presentation of comprehensive income. It eliminates the current option to present other comprehensive income in the statement of changes in equity. Under this revised guidance, an entity will have the option to present the components of net income and other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive financial statements. The new standard is to be applied retrospectively and is effective for the company beginning in the first quarter of 2012. The company is currently evaluating the alternatives for adopting the guidance. Other than the change in presentation, the company has determined that these changes will not have an impact on its consolidated financial statements.

In May 2011, the FASB issued authoritative guidance that amends previous guidance for fair value measurement and disclosure requirements. The revised guidance changes certain fair value measurement principles, clarifies the application of existing fair value measurements and expands the disclosure requirements, particularly for Level 3 fair value measurements. This standard is effective for the company beginning in the first quarter of 2012. The company is currently evaluating the impact of this guidance, but does not anticipate a material impact to its consolidated financial statements upon adoption.

In September 2011, the FASB issued amendments to authoritative accounting guidance to simplify how companies test for goodwill impairment. The amendments permit a company to first assess qualitative factors to determine whether it is more likely than not (defined as having a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described by current accounting rules. Previous accounting guidance required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount. If the fair value of a reporting unit is less than its carrying amount, then a second step of the test must be performed to measure the amount of impairment loss, if any. Under the amendments, a company is not required to calculate the fair value of a reporting unit unless the company determines that it is more likely than not that its fair value is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (January 1, 2012 for the company). Early adoption is permitted. The company is currently evaluating the impact of the amendments, including the alternatives for adoption, but does not anticipate a material impact to its consolidated financial statements upon adoption.

k. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable, and collectability is probable.

Revenue from hardware sales with standard payment terms is recognized upon the passage of title and the transfer of risk of loss. Outside the United States, the company recognizes revenue even if it retains a form of title to products delivered to customers, provided the sole purpose is to enable the company to recover the products in the event of customer payment default and the arrangement does not prohibit the customer's use of the product in the ordinary course of business.

Revenue from software licenses with standard payment terms is recognized at the inception of the initial license term and upon execution of an extension to the license term.

The company also enters into multiple-element arrangements, which may include any combination of hardware, software or services. For example, a client may purchase an enterprise server that includes operating system software. In addition, the arrangement may include post-contract support for the software and

a contract for post-warranty maintenance for service of the hardware. These arrangements consist of multiple deliverables, with hardware and software delivered in one reporting period and the software support and hardware maintenance services delivered across multiple reporting periods. In another example, the company may provide desktop managed services to a client on a long term multiple year basis and periodically sell hardware and software products to the client. The services are provided on a continuous basis across multiple reporting periods and the hardware and software products are delivered in one reporting period. To the extent that a deliverable in a multiple-deliverable arrangement is subject to specific guidance, that deliverable is accounted for in accordance with such specific guidance. Examples of such arrangements may include leased hardware which is subject to specific leasing guidance or software which is subject to specific software revenue recognition guidance.

In these transactions, the company allocates the total revenue to be earned under the arrangement among the various elements based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence (VSOE) if available, third party evidence (TPE) if VSOE is not available, or the best estimated selling price (ESP) if neither VSOE nor TPE is available. VSOE of selling price is based upon the normal pricing and discounting practices for those products and services when sold separately. TPE of selling price is based on evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. ESP is established considering factors such as margin objectives, discounts off of list prices, market conditions, competition and other factors. ESP represents the price at which the company would transact for the deliverable if it were sold by the company regularly on a standalone basis.

For multiple-element arrangements that involve the licensing, selling or leasing of software, the allocation of revenue, for software and software-related elements, is based on VSOE. There may be cases in which there is VSOE of selling price of the undelivered elements but no such evidence for the delivered elements. In these cases, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered elements equals the total arrangement consideration less the aggregate VSOE of selling price of the undelivered elements.

For multiple-element arrangements for products or services that (a) do not include the licensing, selling or leasing of software, or (b) contain software that is incidental to the products or services as a whole or (c) contain software components that are sold, licensed or leased with tangible products when the software components and non-software components (i.e., the hardware and software) of the tangible product function together to deliver the tangible product's essential functionality (e.g., sales of the company's enterprise-class software and servers including hardware and software), the allocation of revenue is based on the relative selling prices of each of the deliverables in the arrangement based on the selling price hierarchy, discussed above.

The company recognizes revenue on delivered elements only if: (a) any undelivered products or services are not essential to the functionality of the delivered products or services, (b) the company has an enforceable claim to receive the amount due in the event it does not deliver the undelivered products or services, (c) there is evidence of the selling price for each undelivered products or services, and (d) the revenue recognition criteria otherwise have been met for the delivered elements. Otherwise, revenue on delivered elements is recognized as the undelivered elements are delivered.

The company evaluates each deliverable in an arrangement to determine whether they represent separate units of accounting. A delivered element constitutes a separate unit of accounting when it has standalone value and there is no customer-negotiated refund or return rights for the delivered elements. If these criteria are not met, the deliverable is combined with the undelivered elements and the allocation of the arrangement consideration and revenue recognition are determined for the combined unit as a single unit.

Revenue from hardware sales and software licenses with extended payment terms is recognized as payments from customers become due (assuming that all other conditions for revenue recognition have been satisfied).

Revenue for operating leases is recognized on a monthly basis over the term of the lease and for sales-type leases at the inception of the lease term.

Revenue from equipment and software maintenance and post-contract support is recognized on a straight-line basis as earned over the terms of the respective contracts. Cost related to such contracts is recognized as incurred.

Revenue and profit under systems integration contracts are recognized either on the percentage-of-completion method of accounting using the cost-to-cost method, or when services have been performed, depending on the nature of the project. For contracts accounted for on the percentage-of-completion basis, revenue and

profit recognized in any given accounting period are based on estimates of total projected contract costs. The estimates are continually reevaluated and revised, when necessary, throughout the life of a contract. Any adjustments to revenue and profit resulting from changes in estimates are accounted for in the period of the change in estimate. When estimates indicate that a loss will be incurred on a contract upon completion, a provision for the expected loss is recorded in the period in which the loss becomes evident.

Revenue from time and materials service contracts and outsourcing contracts is recognized as the services are provided using either an objective measure of output or on a straight-line basis over the term of the contract.

I. There are various lawsuits, claims, investigations and proceedings that have been brought or asserted against the company, which arise in the ordinary course of business, including actions with respect to commercial and government contracts, labor and employment, employee benefits, environmental matters, intellectual property, and non-income tax and employment compensation in Brazil. The company records a provision for these matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Any provisions are reviewed at least quarterly and are adjusted to reflect the impact and status of settlements, rulings, advice of counsel and other information and events pertinent to a particular matter.

The company believes that it has valid defenses with respect to legal matters pending against it. Based on its experience, the company also believes that the damage amounts claimed in the lawsuits disclosed below are not a meaningful indicator of the company's potential liability. Litigation is inherently unpredictable, however, and it is possible that the company's results of operations or cash flow could be materially affected in any particular period by the resolution of one or more of the legal matters pending against it.

The company had a competitively awarded contract with the Transportation Security Administration (TSA) that provided for the establishment of secure information technology environments in airports. The Civil Division of the Department of Justice, working with the Inspector General's Office of the Department of Homeland Security, is reviewing issues relating to labor categorization and overtime on the TSA contract. The Civil Division is also reviewing issues relating to cyber intrusion protection under the TSA and follow-on contracts. The company is working cooperatively with TSA and the Civil Division. The company has commenced preliminary settlement discussions with these government agencies regarding labor categorization and overtime. The company cannot now predict the duration or outcome of these discussions.

The company has contracts with the General Services Administration (GSA), known as Multiple Award Schedule Contracts, under which various U.S. governmental agencies can purchase products and services from the company. Auditors from the GSA's Office of Inspector General have been reviewing the company's compliance with the disclosure and pricing provisions under one of these contracts, and whether the company has potentially overcharged the government under the contract. Separately, the company has made a voluntary disclosure about this matter to the responsible GSA contracting officer. The company has been providing pricing and other information to the GSA auditors and is working cooperatively with them. The company cannot predict the outcome at this time.

In April 2007, the Ministry of Justice of Belgium sued Unisys Belgium SA-NV, a Unisys subsidiary (Unisys Belgium), in the Court of First Instance of Brussels. The Belgian government had engaged the company to design and develop software for a computerized system to be used to manage the Belgian court system. The Belgian State terminated the contract and in its lawsuit has alleged that the termination was justified because Unisys Belgium failed to deliver satisfactory software in a timely manner. It claims damages of approximately 28 million Euros. Unisys Belgium has filed its defense and counterclaim in the amount of approximately 18.5 million Euros. The company believes it has valid defenses to the claims and contends that the Belgian State's termination of the contract was unjustified.

In December 2007, Lufthansa AG sued Unisys Deutschland GmbH, a Unisys subsidiary (Unisys Germany), in the District Court of Frankfurt, Germany, for allegedly failing to perform properly its obligations during the initial phase of a 2004 software design and development contract relating to a Lufthansa customer loyalty program. Under the contract, either party was free to withdraw from the project at the conclusion of the initial design phase. Rather than withdraw, Lufthansa instead terminated the contract and failed to pay the balance owed to Unisys Germany for the initial phase. Lufthansa's lawsuit alleges that Unisys

Germany breached the contract by failing to deliver a proper design for the new system and seeks approximately 21.4 million Euros in damages. The company believes it has valid defenses and has filed its defense and a counterclaim in the amount of approximately 1.5 million Euros. The litigation is proceeding.

Notwithstanding that the ultimate results of the lawsuits, claims, investigations and proceedings that have been brought or asserted against the company are not currently determinable, the company believes that at September 30, 2011, it has adequate provisions for any such matters.

m. Accounting rules governing income taxes require that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. These rules also require that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or the entire deferred tax asset will not be realized.

The company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the company's historical profitability, forecast of future taxable income and available tax-planning strategies that could be implemented to realize the net deferred tax assets. The company uses tax-planning strategies to realize or renew net deferred tax assets to avoid the potential loss of future tax benefits.

A full valuation allowance is currently maintained for all U.S. and certain foreign deferred tax assets in excess of deferred tax liabilities. The company will record a tax provision or benefit for those international subsidiaries that do not have a full valuation allowance against their net deferred tax assets. Any profit or loss recorded for the company's U.S. continuing operations will have no provision or benefit associated with it due to full valuation allowance, except with respect to benefits related to income from discontinued operations. As a result, the company's provision or benefit for taxes will vary significantly depending on the geographic distribution of income.

Included in the nine months ended September 30, 2011 was a benefit of \$29.2 million related to the settlement of two European tax matters. In addition, the UK government reduced its corporate tax rate from 27% to 26% effective April 1, 2011, and from 26% to 25% effective April 1, 2012. These changes were considered to be enacted for U.S. GAAP purposes in July of 2011, when all legislative procedures were completed and the Finance Act of 2011 received Royal Assent. The rate change, which was recorded in the third quarter of 2011, increased the company's income tax provision by \$7.6 million due to the impact on the UK net deferred tax assets.

Internal Revenue Code Sections 382 and 383 provide annual limitations with respect to the ability of a corporation to utilize its net operating loss (as well as certain built-in losses) and tax credit carryforwards, respectively (Tax Attributes), against future U.S. taxable income, if the corporation experiences an ownership change. In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. The company regularly monitors ownership changes (as calculated for purposes of Section 382). Based on currently available information, the company believes that an ownership change may have occurred during the first quarter of 2011, for purposes of the rules described above. However, the final determination of whether an ownership change has occurred is currently subject to a number of discretionary tax rules and factual uncertainties. Moreover, any future transaction or transactions and the timing of such transaction or transactions could trigger additional ownership changes under Section 382.

In the event of an ownership change, utilization of the company's Tax Attributes will be subject to an estimated overall annual limitation determined in part by multiplying the total aggregate market value of the company's common stock immediately preceding the ownership change by the applicable long-term tax-exempt rate, possibly subject to increase based on the built-in gain, if any, in the company's assets at the time of the ownership change. Any unused annual limitation may be carried over to later years. Future U.S. taxable income may not be fully offset by existing Tax Attributes, if such income exceeds the company's annual limitation. However, based on presently available information and the existence of tax planning strategies, currently the company does not expect to incur a cash tax liability in the near term. The company maintains a full valuation allowance against the realization of all U.S. as well as certain foreign deferred tax assets in excess of deferred tax liabilities.

n. On February 28, 2011, the company sold 2,587,500 shares of 6.25% mandatory convertible preferred stock for net proceeds of \$249.7 million. Each share of

mandatory convertible preferred stock will automatically convert on March 1, 2014 into between 2.1899 and 2.6717 shares of the company's common stock, subject to adjustment, depending on the volume weighted average price per share of the company's common stock over the 20 consecutive trading days ending on the third trading day immediately preceding the mandatory conversion date. At any time prior to March 1, 2014, holders may elect to convert all or a portion of their shares of the mandatory convertible preferred stock at the minimum conversion rate of 2.1899 shares of the company's common stock, subject to adjustment.

The company pays dividends on each share of the mandatory convertible preferred stock on a cumulative basis at an annual rate of 6.25% on the initial liquidation preference of \$100 per share (equivalent to \$6.25 per year per share). Dividends accrue and accumulate from the date of issuance and, to the extent the company has lawfully available funds to pay dividends and the company's Board of Directors or an authorized committee of the Board of Directors declares a dividend payable, the company will pay dividends on March 1, June 1, September 1 and December 1 of each year prior to March 1, 2014 in cash and on March 1, 2014 or any earlier conversion date in cash, shares of the company's common stock, or a combination thereof, at the company's election. The annualized dividend on the mandatory convertible preferred stock will be approximately \$16.2 million until conversion.

On March 30, 2011, the net proceeds from the sale of the mandatory convertible preferred stock were used to redeem an aggregate principal amount of \$124.7 million of the company's senior secured notes due 2014 and an aggregate principal amount of \$86.3 million of the company's senior secured notes due 2015 under the provisions of the indentures relating to the notes that allow the company to redeem, at its option, up to 35% of the original principal amount of each series of notes from the net cash proceeds of one or more equity offerings. As a result of these redemptions, the company recognized a charge of \$31.8 million in Other income (expense), net in the three months ended March 31, 2011, which was comprised of \$28.2 million of premium paid and \$3.6 million for the write off of unamortized discounts, issuance costs and gains related to the portion of the notes redeemed.

On April 11, 2011, the company purchased \$44.1 million of its senior secured notes due 2014 and \$134.8 million of its senior secured notes due 2015 that had been tendered into a cash tender offer conducted by the company. As a result of this purchase of notes, the company recognized a charge of \$45.7 million in Other income (expense), net in the three months ended June 30, 2011, which is comprised of \$42.2 million of premium and expenses paid and \$3.5 million for the write off of unamortized discounts, issuance costs and gains related to the portion of the notes purchased.

On June 23, 2011, the company entered into a new, five-year, secured revolving credit facility, to replace the company's \$150 million U.S. trade accounts receivable securitization facility that terminated on that date. The new credit agreement provides for loans and letters of credit up to an aggregate amount of \$150 million (with a limit on letters of credit of \$100 million). The prior accounts receivable securitization facility had not provided for letters of credit. Borrowing limits under the new credit agreement are based upon the amount of eligible U.S. accounts receivable. Borrowings under the facility will bear interest based on short-term rates. The credit agreement contains customary representations and warranties, including that there has been no material adverse change in the company's business, properties, operations or financial condition. It also contains financial covenants requiring the company to maintain a minimum fixed charge coverage ratio and, if the company's consolidated cash plus availability under the credit facility falls below \$130 million, a maximum secured leverage ratio. The credit agreement allows the company to pay dividends on its preferred stock unless the company is in default and to, among other things, repurchase its equity, prepay other debt, incur other debt or liens, dispose of assets and make acquisitions, loans and investments, provided the company complies with certain requirements and limitations set forth in the agreement. Events of default include non-payment, failure to perform covenants, materially incorrect representations and warranties, change of control and default under other debt aggregating at least \$50 million. The credit facility is guaranteed by Unisys Holding Corporation, Unisys NPL, Inc. and any future material domestic subsidiaries. The facility is secured on a first priority basis by certain assets of Unisys Corporation and the subsidiary guarantors consisting primarily of the U.S. trade accounts receivable of Unisys Corporation. It is secured on a junior basis (to the senior secured notes due 2014 and 2015) by the other assets of Unisys Corporation and the subsidiary guarantors, other than certain excluded assets. The company may elect to prepay or terminate the credit facility without penalty.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

For the first nine months of 2011, Unisys reported net income from continuing operations attributable to common shareholders of \$26.2 million, or \$.60 per diluted share, compared with \$63.7 million, or \$1.47 per diluted share, in the year-ago nine month period. The company's results for the nine months ended September 30, 2011 were impacted by a pretax debt-reduction charge of \$77.6 million and a \$28.5 million increase in pretax pension expense.

Revenue for the first nine months of 2011 declined 4 percent to \$2.87 billion compared with \$2.98 billion in the year-ago period. Approximately 6 percentage points of the decline were due to a \$154 million, or 24 percent, revenue decline in the U.S. Federal business during the nine months ended September 30, 2011. The decline reflected ongoing budget uncertainty that resulted in delayed awards and funding, as well as the impact of the expiration of the Transportation Security Administration (TSA) contract, which ended in November 2010. The contract provided approximately \$95 million of revenue in the nine months ended September 30, 2010.

As part of the company's ongoing efforts to enhance its balance sheet and capital structure, during the first nine months of 2011 the company took actions to significantly reduce its debt and interest expense. During this period, Unisys sold approximately \$250 million of mandatory convertible preferred stock and used the proceeds from this sale, as well as cash on hand, to retire an aggregate principal amount of approximately \$392 million of its senior notes due 2012, 2014 and 2015.

On October 25, 2011, the company called for redemption all of the remaining \$65.9 million of its 8% senior notes due 2012. The notes will be redeemed on November 25, 2011 at 100% of their principal amount plus a make-whole premium to be calculated three business days before the redemption date. The company expects to recognize a charge of approximately \$4.5 million in Other income (expense), net in the fourth quarter of 2011 in connection with the redemption.

The debt reductions discussed above will result in an approximate \$58 million decline in annual interest expense.

Results of operations

Company results

Three months ended September 30, 2011 compared with the three months ended September 30, 2010

Revenue for the quarter ended September 30, 2011 was \$1,020.1 million compared with \$960.6 million for the third quarter of 2010, an increase of 6% from the prior year, primarily reflecting an increase in the company's ClearPath revenue as well as higher services revenue. Foreign currency fluctuations had an almost 6-percentage-point positive impact on revenue in the current period compared with the year-ago period. Revenue in the company's U.S. Federal government business declined \$42.9 million, or 19%, in the third quarter of 2011 compared with the third quarter of 2010. The decline in revenue from the company's U.S. Federal business negatively impacted the growth rate in revenue by approximately 8 percentage points in the current quarter.

Services revenue increased 2% and Technology revenue increased 36% in the current quarter compared with the year-ago period. U.S. revenue was up 3% in the third quarter compared with the year-ago period. The decline in revenue from the company's U.S. Federal business negatively impacted the growth rate in revenue by approximately 10 percentage points on services revenue and 24 percentage points on U.S. revenue in the current quarter. International revenue increased 8% in the current quarter due to increases in Europe, Asia Pacific and Brazil, offset in part by declines in Latin America. Foreign currency had a 10-percentage-point positive impact on international revenue in the three months ended September 30, 2011 compared with the three months ended September 30, 2010.

Total gross profit margin was 27.9% in the three months ended September 30, 2011 compared with 24.7% in the three months ended September 30, 2010, primarily reflecting higher sales of ClearPath software and servers and a more profitable mix of services revenue.

Selling, general and administrative expense in the three months ended September 30, 2011 was \$153.3 million (15.0% of revenue) compared with \$142.4 million (14.8% of revenue) in the year-ago period. The increase was largely attributable to currency fluctuations.

Research and development (R&D) expenses in the third quarter of 2011 were \$18.5 million compared with \$18.9 million in the third quarter of 2010.

For the third quarter of 2011, the company reported an operating profit of \$113.0 million compared with an operating profit of \$76.1 million in the third quarter of 2010, reflecting higher revenue and margin.

For the three months ended September 30, 2011, pension expense was \$8.5 million compared with pension income of \$.8 million for the three months ended September 30, 2010. In 2011, the increase in pension expense was principally due to lower expected returns on plan assets and higher recognition of net actuarial losses in 2011 compared with 2010. The company records pension income or expense, as well as other employee-related costs such as payroll taxes and medical insurance costs, in operating income in the following income statement categories: cost of revenue; selling, general and administrative expenses; and research and development expenses. The amount allocated to each category is based on where the salaries of active employees are charged.

Interest expense for the three months ended September 30, 2011 was \$12.5 million compared with \$25.0 million for the three months ended September 30, 2010, reflecting the debt reductions discussed below.

Other income (expense), net was income of \$16.6 million in the third quarter of 2011, compared with expense of \$.2 million in 2010. Included in the third quarter of 2011 and 2010 were foreign exchange gains of \$12.9 million and \$.5 million, respectively.

Income from continuing operations before income taxes for the three months ended September 30, 2011 was \$117.1 million compared with income of \$50.9 million in 2010. The provision for income taxes was \$33.4 million in the current quarter compared with a provision of \$28.2 million in the year-ago period. As discussed in note (m) of the Notes to Consolidated Financial Statements, the company evaluates quarterly the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The company will record a tax provision or benefit for those international subsidiaries that do not have a full valuation allowance against their net deferred tax assets. Any profit or loss recorded for the company's U.S. continuing operations will have no provision or benefit associated with it due to full valuation allowance, except with respect to benefits related to income from discontinued operations. As a result, the company's provision or benefit for taxes will vary significantly quarter to quarter depending on the geographic distribution of income.

The UK government reduced its corporate tax rate from 27% to 26% effective April 1, 2011, and from 26% to 25% effective April 1, 2012. These changes were considered to be enacted for U.S. GAAP purposes in July of 2011, when all legislative procedures were completed and the Finance Act of 2011 received Royal Assent. The rate change, which was recorded in the third quarter of 2011, increased the company's income tax provision by \$7.6 million due to the impact on the UK net deferred tax assets.

Nine months ended September 30, 2011 compared with the nine months ended September 30, 2010

Revenue for the nine months ended September 30, 2011 was \$2,868.5 million compared with \$2,975.0 million for the prior-year period, a decrease of 4% from the prior year. Foreign currency fluctuations had a 4-percentage-point positive impact on revenue in the current period compared with the year-ago period. Revenue in the company's U.S. Federal government business declined \$154.2 million, or 24%, in the nine months ended September 30, 2011 compared with the year-ago period. The decline in revenue from the company's U.S. Federal business negatively impacted the rate of decline in revenue by approximately 6 percentage points in the current period.

Services revenue declined 3% and Technology revenue decreased 7% in the current nine-month period compared with the year-ago period. U.S. revenue was down 11%

in the current period compared with the year-ago period. The decline in revenue from the company's U.S. Federal business negatively impacted the rate of decline by approximately 7 percentage points on services revenue and 13 percentage points on U.S. revenue in the current period. International revenue increased 2% in the current period due to an increase in all regions. Foreign currency had an 8-percentage-point positive impact on international revenue in the nine months ended September 30, 2011 compared with the nine months ended September 30, 2010.

Total gross profit margin was 24.6% in the nine months ended September 30, 2011 compared with 25.6% in the nine months ended September 30, 2010, driven by lower revenue and margin in the U.S. Federal business.

Selling, general and administrative expense in the nine months ended September 30, 2011 was \$446.5 million (15.6% of revenue) compared with \$458.7 million (15.4% of revenue) in the year-ago period.

Research and development (R&D) expenses in the nine months ended September 30, 2011 were \$57.2 million compared with \$60.8 million in the prior-year period.

For the first nine months of 2011, the company reported an operating profit of \$203.0 million compared with an operating profit of \$241.1 million in the first nine months of 2010, reflecting the lower U.S. Federal business revenue and margin.

For the nine months ended September 30, 2011, pension expense was \$26.2 million compared with pension income of \$2.3 million for the nine months ended September 30, 2010.

During the nine months ended September 30, 2011, the company recorded a charge of \$13.5 million (\$6.4 million in cost of revenue and \$7.1 million in other income/expense) related to the loss of an old non-income tax case concerning the company's former Brazilian manufacturing operations.

Interest expense for the nine months ended September 30, 2011 was \$51.7 million compared with \$76.8 million for the nine months ended September 30, 2010.

Other income (expense), net was an expense of \$56.6 million in the first nine months of 2011, compared with expense of \$44.6 million in 2010. Included in the first nine months of 2011 were charges of \$77.6 million related to the debt redemptions, discussed below, and foreign exchange gains of \$21.1 million. Included in the first nine months of 2010 were foreign exchange losses of \$38.4 million, which included \$19.9 million related to the Venezuelan devaluation.

Income from continuing operations before income taxes for the nine months ended September 30, 2011 was \$94.7 million compared with income of \$119.7 million in 2010. The provision for income taxes was \$52.4 million in the current period compared with a provision of \$52.7 million in the year-ago period. Included in the nine months ended September 30, 2011 was a benefit of \$29.2 million related to the settlement of two European tax matters, as well as a provision of \$7.6 million due to the impact of the UK tax rate change.

Segment results

The company has two business segments: Services and Technology. Revenue classifications by segment are as follows: Services—systems integration and consulting, outsourcing, infrastructure services and core maintenance; Technology—enterprise-class software and servers and other technology.

The accounting policies of each business segment are the same as those followed by the company as a whole. Intersegment sales and transfers are priced as if the sales or transfers were to third parties. Accordingly, the Technology segment recognizes intersegment revenue and manufacturing profit on hardware and software shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profits on such shipments of company hardware and software to customers. The Services segment also includes the sale of hardware and software products sourced from third parties that are sold to customers through the company's Services channels. In the company's consolidated statements of income, the manufacturing costs of products sourced from the Technology segment and sold to Services customers are reported in cost of revenue for Services.

Also included in the Technology segment's sales and operating profit are sales of hardware and software sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the three months ended September 30, 2011 and 2010

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was \$.7 million and \$.4 million, respectively. The amount for the nine months ended September 30, 2011 and 2010 was \$5.4 million and \$5.4 million, respectively. The profit on these transactions is eliminated in Corporate.

The company evaluates business segment performance on operating income exclusive of restructuring charges and unusual and nonrecurring items, which are included in Corporate. Effective January 1, 2011, the company changed the measurement of segment performance that it evaluates to exclude pension income or expense. Prior periods have been reclassified to conform to the 2011 presentation. All other corporate and centrally incurred costs are allocated to the business segments based principally on revenue, employees, square footage or usage.

Three months ended September 30, 2011 compared with the three months ended September 30, 2010

Information by business segment is presented below (in millions of dollars):

	Total	Eliminations	Services	Technology
Three Months Ended September 30, 2011				
Customer revenue	\$ 1,020.1		\$ 876.3	\$ 143.8
Intersegment		\$ (26.4)	.9	25.5
Total revenue	\$ 1,020.1	\$ (26.4)	\$ 877.2	\$ 169.3
Gross profit percent	27.9%		21.6%	57.4%
Operating profit percent	11.1%		8.7%	25.8%
Three Months Ended September 30, 2010				
Customer revenue	\$ 960.6		\$ 855.2	\$ 105.4
Intersegment		\$ (25.6)	1.2	24.4
Total revenue	\$ 960.6	\$ (25.6)	\$ 856.4	\$ 129.8
Gross profit percent	24.7%		20.6%	47.5%
Operating profit percent	7.9%		8.0%	7.4%

Gross profit percent and operating income percent are as a percent of total revenue.

Customer revenue by classes of similar products or services, by segment, is presented below (in millions of dollars):

	Three Months Ended September 30		Percent Change
	2011	2010	
Services			
Systems integration and consulting	\$ 305.8	\$ 291.5	4.9%
Outsourcing	391.2	392.4	(.3)%
Infrastructure services	124.1	116.4	6.6%
Core maintenance	55.2	54.9	.5%
	876.3	855.2	2.5%
Technology			
Enterprise-class software and servers	123.4	77.0	60.3%
Other technology	20.4	28.4	(28.2)%
	143.8	105.4	36.4%

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Total	\$ 1,020.1	\$ 960.6	6.2%
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In the Services segment, customer revenue was \$876.3 million for the three months ended September 30, 2011, up 2.5% from the three months ended September 30, 2010. Foreign currency translation had a 6-percentage-point positive impact on Services revenue in the current quarter compared with the year-ago period.

The decline in revenue from the company's U.S. Federal business negatively impacted the growth rate of services revenue by approximately 10 percentage points in the current quarter.

Revenue from systems integration and consulting increased 4.9% from \$291.5 million in the September 2010 quarter to \$305.8 million in the September 2011 quarter, benefiting from a more profitable mix of industry solutions particularly within the transportation industry. The decline in revenue from the company's U.S. Federal business negatively impacted the growth rate of systems integration and consulting revenue by approximately 16 percentage points in the current quarter.

Outsourcing revenue was flat for the three months ended September 30, 2011 compared with the three months ended September 30, 2010. The decline in revenue from the company's U.S. Federal business negatively impacted the growth rate of outsourcing revenue by approximately 9 percentage points in the current quarter.

Infrastructure services revenue increased 6.6% for the three month period ended September 30, 2011 compared with the three month period ended September 30, 2010.

Core maintenance revenue increased .5% in the current quarter compared with the prior-year quarter.

Services gross profit was 21.6% in the third quarter of 2011 compared with 20.6% in the year-ago period. Services operating income percent was 8.7% in the three months ended September 30, 2011 compared with 8.0% in the three months ended September 30, 2010. Both the gross profit and operating income percents in the current period benefitted from a more profitable mix of services revenue.

In the Technology segment, customer revenue was \$143.8 million in the current quarter compared with \$105.4 million in the year-ago period for an increase of 36.4%, as growth in ClearPath revenue more than offset declines in other technology revenue. Foreign currency translation had a positive impact of approximately 5 percentage points on Technology revenue in the current period compared with the prior-year period.

Revenue from the company's enterprise-class software and servers, which includes the company's ClearPath and ES7000 product families, increased 60.3% for the three months ended September 30, 2011 compared with the three months ended September 30, 2010. The increase was due to higher sales of the company's ClearPath software and servers.

Revenue from other technology decreased 28.2% for the three months ended September 30, 2011 compared with the three months ended September 30, 2010, principally due to lower sales of third-party technology products.

Technology gross profit was 57.4% in the current quarter compared with 47.5% in the year-ago quarter. Technology operating income percent was 25.8% in the three months ended September 30, 2011 compared with 7.4% in the three months ended September 30, 2010. The increase in margins was due to higher sales of the company's ClearPath software and servers.

Nine months ended September 30, 2011 compared with the nine months ended September 30, 2010

Information by business segment is presented below (in millions of dollars):

	Total	Eliminations	Services	Technology
<u>Nine Months Ended September 30, 2011</u>				
Customer revenue	\$ 2,868.5		\$ 2,519.3	\$ 349.2
Intersegment		\$ (70.2)	2.7	67.5
Total revenue	\$ 2,868.5	\$ (70.2)	\$ 2,522.0	\$ 416.7
Gross profit percent	24.6%		19.9%	53.1%
Operating profit percent	7.1%		6.7%	14.6%

	Total	Eliminations	Services	Technology
Nine Months Ended September 30, 2010				
Customer revenue	\$ 2,975.0		\$ 2,597.7	\$ 377.3
Intersegment		\$ (84.9)	3.6	81.3
Total revenue	\$ 2,975.0	\$ (84.9)	\$ 2,601.3	\$ 458.6
Gross profit percent	25.6%		19.5%	54.3%
Operating profit percent	8.1%		6.3%	16.9%

Gross profit percent and operating income percent are as a percent of total revenue.

Customer revenue by classes of similar products or services, by segment, is presented below (in millions of dollars):

	Nine Months Ended September 30		Percent Change
	2011	2010	
Services			
Systems integration and consulting	\$ 876.7	\$ 921.9	(4.9)%
Outsourcing	1,112.6	1,144.2	(2.8)%
Infrastructure services	364.1	357.1	2.0%
Core maintenance	165.9	174.5	(4.9)%
	2,519.3	2,597.7	(3.0)%
Technology			
Enterprise-class software and servers	302.6	311.0	(2.7)%
Other technology	46.6	66.3	(29.7)%
	349.2	377.3	(7.4)%
Total	\$ 2,868.5	\$ 2,975.0	(3.6)%

In the Services segment, customer revenue was \$2,519.3 million for the nine months ended September 30, 2011 down 3.0% from the nine months ended September 30, 2010. Foreign currency translation had a 4-percentage-point positive impact on Services revenue in the current period compared with the year-ago period. The decline in revenue from the company's U.S. Federal business negatively impacted the rate of decline in services revenue by approximately 7 percentage points in the current nine month period.

Revenue from systems integration and consulting decreased 4.9% from \$921.9 million in the first nine months of 2010 to \$876.7 million in the first nine months of 2011. The decline in revenue from the company's U.S. Federal business negatively impacted the rate of decline in systems integration and consulting revenue by approximately 5 percentage points in the current period compared with the year-ago period.

Outsourcing revenue decreased 2.8% for the nine months ended September 30, 2011 to \$1,112.6 million compared with the nine months ended September 30, 2010. The decline in revenue from the company's U.S. Federal business negatively impacted the rate of decline in outsourcing revenue by approximately 10 percentage points in the current period compared with the year-ago period.

Infrastructure services revenue increased 2.0% for the nine month period ended September 30, 2011 compared with the nine month period ended September 30, 2010.

Core maintenance revenue declined 4.9% in the current nine-month period compared with the prior-year period.

Services gross profit was 19.9% in the first nine months of 2011 compared with 19.5% in the year-ago period. Services operating income percent was 6.7% in the nine months ended September 30, 2011 compared with 6.3% in the nine months ended September 30, 2010.

In the Technology segment, customer revenue was \$349.2 million in the current period compared with \$377.3 million in the year-ago period for a decrease of 7.4%. Foreign currency translation had a positive impact of approximately 3 percentage points on Technology revenue in the current period compared with the prior-year period.

Revenue from the company's enterprise-class software and servers, which includes the company's ClearPath and ES7000 product families, decreased 2.7% for the nine months ended September 30, 2011 compared with the nine months ended September 30, 2010.

Revenue from other technology decreased 29.7% for the nine months ended September 30, 2011 compared with the nine months ended September 30, 2010, principally due to lower sales of third-party technology products.

Technology gross profit was 53.1% in the current nine-month period compared with 54.3% in the year-ago period. Technology operating income percent was 14.6% in the nine months ended September 30, 2011 compared with 16.9% in the nine months ended September 30, 2010.

New accounting pronouncements

See note (j) of the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition.

Financial condition

The company's principal sources of liquidity are cash on hand, cash from operations and its new five-year revolving credit facility, discussed below, which has replaced the company's U.S. trade accounts receivable facility. The company believes that it will have adequate sources of liquidity to meet its expected near-term cash requirements.

Cash and cash equivalents at September 30, 2011 were \$667.3 million compared with \$828.3 million at December 31, 2010. The decline was principally due to the debt reductions described below. At September 30, 2010 and December 31, 2010, the company had sold no receivables under the prior U.S. trade accounts receivable facility, compared with \$100 million as of December 31, 2009.

During the nine months ended September 30, 2011, cash provided by operations was \$157.7 million compared with cash provided of \$150.0 million for the nine months ended September 30, 2010.

Cash used for investing activities for the nine months ended September 30, 2011 was \$83.6 million compared with cash usage of \$25.8 million during the nine months ended September 30, 2010. Net proceeds of investments were \$2.4 million for the nine months ended September 30, 2011 compared with net proceeds of \$1.0 million in the prior-year period. Proceeds from investments and purchases of investments represent derivative financial instruments used to reduce the company's currency exposure to market risks from changes in foreign currency exchange rates. During the nine months ended September 30, 2011, the net change in restricted deposits resulted in cash provided of \$30.1 million compared with cash provided of \$13.9 million during the nine months ended September 30, 2010. In addition, in the current period, the investment in marketable software was \$36.9 million compared with \$41.8 million in the year-ago period, capital additions of properties were \$32.9 million in 2011 compared with \$49.7 million in 2010 and capital additions of outsourcing assets were \$31.3 million in 2011 compared with \$70.4 million in 2010. The prior nine-month period included net cash proceeds of \$121.2 million related to the sale of the company's HIM business, the sale of the company's U.S. specialized technology check sorter and related U.S. maintenance business and the sale of the company's UISL business.

Cash used for financing activities during the nine months ended September 30, 2011 was \$222.1 million compared with cash usage of \$76.8 million during the nine months ended September 30, 2010. The current period includes cash proceeds of \$249.7 million related to the issuance of preferred stock, net of issuance costs, cash payments for long-term debt of \$462.5 million (see discussion below) and dividends paid on preferred stock of \$8.1 million. The prior-year period includes \$78.0 million used to redeem and to extinguish long-term debt.

At September 30, 2011, total debt was \$445.3 million, a decrease of \$378.7 million from December 31, 2010.

On February 28, 2011, the company sold 2,587,500 shares of 6.25% mandatory convertible preferred stock for net proceeds of \$249.7 million. Each share of mandatory convertible preferred stock will automatically convert on March 1, 2014 into between 2.1899 and 2.6717 shares of the company's common stock,

subject to adjustment, depending on the volume weighted average price per share of the company's common stock over the 20 consecutive trading days ending on the third trading day immediately preceding the mandatory conversion date. At any time prior to March 1, 2014, holders may elect to convert all or a portion of their shares of the mandatory convertible preferred stock at the minimum conversion rate of 2.1899 shares of the company's common stock, subject to adjustment.

The company pays dividends on each share of the mandatory convertible preferred stock on a cumulative basis at an annual rate of 6.25% on the initial liquidation preference of \$100 per share (equivalent to \$6.25 per year per share). Dividends accrue and accumulate from the date of issuance and, to the extent the company has lawfully available funds to pay dividends and the company's Board of Directors or an authorized committee of the Board of Directors declares a dividend payable, the company will pay dividends on March 1, June 1, September 1 and December 1 of each year prior to March 1, 2014 in cash and on March 1, 2014 or any earlier conversion date in cash, shares of the company's common stock, or a combination thereof, at the company's election. The annualized dividend on the mandatory convertible preferred stock will be approximately \$16.2 million until conversion.

On March 30, 2011, the net proceeds from the sale of the mandatory convertible preferred stock were used to redeem an aggregate principal amount of \$124.7 million of the company's senior secured notes due 2014 and an aggregate principal amount of \$86.3 million of the company's senior secured notes due 2015 under the provisions of the indentures relating to the notes that allow the company to redeem, at its option, up to 35% of the original principal amount of each series of notes from the net cash proceeds of one or more equity offerings. As a result of these redemptions, the company recognized a charge of \$31.8 million in Other income (expense), net in the three months ended March 31, 2011, which was comprised of \$28.2 million of premium paid and \$3.6 million for the write off of unamortized discounts, issuance costs and gains related to the portion of the notes redeemed.

On April 11, 2011, the company purchased \$44.1 million of its senior secured notes due 2014 and \$134.8 million of its senior secured notes due 2015 that had been tendered into a cash tender offer conducted by the company. As a result of this purchase of notes, the company recognized a charge of \$45.7 million in Other income (expense), net in the three months ended June 30, 2011, which is comprised of \$42.2 million of premium and expenses paid and \$3.5 million for the write off of unamortized discounts, issuance costs and gains related to the portion of the notes purchased.

On October 25, 2011, the company called for redemption all of the remaining \$65.9 million of its 8% senior notes due 2012. The notes will be redeemed on November 25, 2011 at 100% of their principal amount plus a make-whole premium to be calculated three business days before the redemption date. The company expects to recognize a charge of approximately \$4.5 million in Other income (expense), net in the fourth quarter of 2011 in connection with the redemption.

The debt reductions discussed above, as well as the redemption to be completed in the fourth quarter, will result in an approximate \$58 million decline in annual interest expense.

The company and certain international subsidiaries have access to uncommitted lines of credit from various banks.

On June 23, 2011, the company entered into a new, five-year, secured revolving credit facility, to replace the company's \$150 million U.S. trade accounts receivable securitization facility that terminated on that date. The new credit agreement provides for loans and letters of credit up to an aggregate amount of \$150 million (with a limit on letters of credit of \$100 million). The prior accounts receivable securitization facility had not provided for letters of credit. Borrowing limits under the new credit agreement are based upon the amount of eligible U.S. accounts receivable. Borrowings under the facility will bear interest based on short-term rates. The credit agreement contains customary representations and warranties, including that there has been no material adverse change in the company's business, properties, operations or financial condition. It also contains financial covenants requiring the company to maintain a minimum fixed charge coverage ratio and, if the company's consolidated cash plus availability under the credit facility falls below \$130 million, a maximum secured leverage ratio. The credit agreement allows the company to pay dividends on its preferred stock unless the company is in default and to, among other things, repurchase its equity, prepay other debt, incur other debt or liens, dispose of assets and make acquisitions, loans and investments, provided the company complies with certain requirements and limitations set forth in the agreement. Events of default include non-payment,

failure to perform covenants, materially incorrect representations and warranties, change of control and default under other debt aggregating at least \$50 million. The credit facility is guaranteed by Unisys Holding Corporation, Unisys NPL, Inc. and any future material domestic subsidiaries. The facility is secured on a first priority basis by certain assets of Unisys Corporation and the subsidiary guarantors consisting primarily of the U.S. trade accounts receivable of Unisys Corporation. It is secured on a junior basis (to the senior secured notes due 2014 and 2015) by the other assets of Unisys Corporation and the subsidiary guarantors, other than certain excluded assets. The company may elect to prepay or terminate the credit facility without penalty.

At September 30, 2011, the company has met all covenants and conditions under its various lending agreements. The company expects to continue to meet these covenants and conditions.

In 2011, the company expects to make cash contributions of approximately \$115 million to its worldwide, primarily non-U.S., defined benefit pension plans. In accordance with regulations governing contributions to U.S. defined benefit pension plans, the company is not required to fund its U.S. qualified defined benefit pension plan in 2011. Based on current legislation, recent interest rates and expected returns for 2011, the company currently expects that it will be required to make a contribution of up to approximately \$140 million in 2012 to this plan.

The company may, from time to time, redeem, tender for, or repurchase its securities in the open market or in privately negotiated transactions depending upon availability, market conditions and other factors. The company has on file with the Securities and Exchange Commission an effective registration statement, expiring in June of 2012, covering approximately \$.8 billion of debt or equity securities, which enables the company to be prepared for future market opportunities.

Factors that may affect future results

From time to time, the company provides information containing forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events and include any statement that does not directly relate to any historical or current fact. Words such as anticipates, believes, expects, intends, plans, projects and similar expressions may include such forward-looking statements. All forward-looking statements rely on assumptions and are subject to risks, uncertainties and other factors that could cause the company's actual results to differ materially from expectations. Factors that could affect future results include, but are not limited to, those discussed below. Any forward-looking statement speaks only as of the date on which that statement is made. The company assumes no obligation to update any forward-looking statement to reflect events or circumstances that occur after the date on which the statement is made.

Factors that could affect future results include the following:

Future results will depend in part on the company's ability to drive profitable growth in consulting and systems integration. The company's ability to grow profitably in this business will depend on the level of demand for systems integration projects and the portfolio of solutions the company offers for specific industries. It will also depend on an efficient utilization of services delivery personnel. In addition, profit margins in this business are largely a function of the rates the company is able to charge for services and the chargeability of its professionals. If the company is unable to attain sufficient rates and chargeability for its professionals, profit margins will be adversely affected. The rates the company is able to charge for services are affected by a number of factors, including clients' perception of the company's ability to add value through its services; introduction of new services or products by the company or its competitors; pricing policies of competitors; and general economic conditions. Chargeability is also affected by a number of factors, including the company's ability to transition employees from completed projects to new engagements, and its ability to forecast demand for services and thereby maintain an appropriate headcount.

The company's future results will depend in part on its ability to take on, successfully implement and grow outsourcing operations. The company's outsourcing contracts are multiyear engagements under which the company takes over management of a client's technology operations, business processes or networks. In a number of these arrangements, the company hires certain of its

clients' employees and may become responsible for the related employee obligations, such as pension and severance commitments. In addition, system development activity on outsourcing contracts may require the company to make significant upfront investments. The company will need to have available sufficient financial resources in order to take on these obligations and make these investments.

Recoverability of outsourcing assets is dependent on various factors, including the timely completion and ultimate cost of the outsourcing solution, and realization of expected profitability of existing outsourcing contracts. These risks could result in an impairment of a portion of the associated assets, which are tested for recoverability quarterly.

As long-term relationships, outsourcing contracts provide a base of recurring revenue. However, outsourcing contracts are highly complex and can involve the design, development, implementation and operation of new solutions and the transitioning of clients from their existing business processes to the new environment. In the early phases of these contracts, gross margins may be lower than in later years when an integrated solution has been implemented, the duplicate costs of transitioning from the old to the new system have been eliminated and the work force and facilities have been rationalized for efficient operations. Future results will depend on the company's ability to effectively and timely complete these implementations, transitions and rationalizations.

Future results will also depend, in part, on market demand for the company's high-end enterprise servers and maintenance on these servers. The company continues to apply its resources to develop value-added software capabilities and optimized solutions for these server platforms which provide competitive differentiation. Future results will depend on the company's ability to maintain its installed base for ClearPath and to develop next-generation ClearPath products to expand the market.

The company faces aggressive competition in the information services and technology marketplace, which could lead to reduced demand for the company's products and services and could have an adverse effect on the company's business. The information services and technology markets in which the company operates include a large number of companies vying for customers and market share both domestically and internationally. The company's competitors include consulting and other professional services firms, systems integrators, outsourcing providers, infrastructure services providers, computer hardware manufacturers and software providers. Some of the company's competitors may develop competing products and services that offer better price-performance or that reach the market in advance of the company's offerings. Some competitors also have or may develop greater financial and other resources than the company, with enhanced ability to compete for market share, in some instances through significant economic incentives to secure contracts. Some also may be better able to compete for skilled professionals. Any of these factors could lead to reduced demand for the company's products and services and could have an adverse effect on the company's business. Future results will depend on the company's ability to mitigate the effects of aggressive competition on revenues, pricing and margins and on the company's ability to attract and retain talented people.

The company's future results will depend on its ability to retain significant clients. The company has a number of significant long-term contracts with clients, including governmental entities, and its future success will depend, in part, on retaining its relationships with these clients. The company could lose clients for such reasons as contract expiration, conversion to a competing service provider, disputes with clients or a decision to in-source services, including for contracts with governmental entities as part of the rebid process. The company could also lose clients as a result of their merger, acquisition or business failure. The company may not be able to replace the revenue and earnings from any such lost client.

The company's future results will depend upon its ability to effectively anticipate and respond to volatility and rapid technological change in its industry. The company operates in a highly volatile industry characterized by rapid technological change, evolving technology standards, short product life cycles and continually changing customer demand patterns. Future success will depend in part on the company's ability to anticipate and respond to these market trends and to design, develop, introduce, deliver or obtain new and innovative products and services on a timely and cost-effective basis. The company may not be successful in anticipating or responding to changes in technology, industry standards or customer preferences, and the market may not

demand or accept its services and product offerings. In addition, products and services developed by competitors may make the company's offerings less competitive.

The company's business can be adversely affected by global economic conditions, acts of war, terrorism or natural disasters. The company's financial results have been impacted by the global economic slowdown in recent years. If economic conditions worsen, the company could see reductions in demand and increased pressure on revenue and profit margins. The company could also see a further consolidation of clients, which could also result in a decrease in demand. The company's business could also be affected by acts of war, terrorism or natural disasters. Current world tensions could escalate, and this could have unpredictable consequences on the world economy and on the company's business.

The company has significant pension obligations and may be required to make significant cash contributions to its defined benefit pension plans. The company has unfunded obligations under its U.S. and non-U.S. defined benefit pension plans. In 2011, the company expects to make cash contributions of approximately \$115 million to its worldwide, primarily non-U.S., defined benefit pension plans. In accordance with regulations governing contributions to U.S. defined benefit pension plans, the company is not required to fund its U.S. qualified defined benefit pension plan in 2011. Based on current legislation, recent interest rates and expected returns for 2011, the company currently expects that it will be required to make a contribution of up to approximately \$140 million in 2012 to this plan.

Deterioration in the value of the company's worldwide defined benefit pension plan assets could require the company to make larger cash contributions to its defined benefit pension plans in the future. In addition, the funding of plan deficits over a shorter period of time than currently anticipated could result in making cash contributions to these plans on a more accelerated basis. Either of these events would reduce the cash available for working capital and other corporate uses and may have an adverse impact on the company's operations, financial condition and liquidity.

The company's future results will depend on the success of its program to reduce costs, focus its global resources and simplify its business structure. Over the past several years, the company has implemented significant cost-reduction measures and continues to focus on measures intended to further improve cost efficiency. In prior years, the company has incurred significant cost reduction charges in connection with these efforts. Future results will depend on the success of these efforts as well as on the success of the company's program to focus its global resources and simplify its business structure. This program is based on various assumptions, including assumptions regarding market segment growth, client demand, and the proper skill set of and training for sales and marketing management and personnel, all of which are subject to change. Furthermore, the company's institutional stockholders may attempt to influence these strategies.

The company's contracts may not be as profitable as expected or provide the expected level of revenues. In a number of the company's long-term contracts for infrastructure services, outsourcing, help desk and similar services, the company's revenue is based on the volume of products and services provided. As a result, revenue levels anticipated at the contract's inception are not guaranteed. In addition, some of these contracts may permit termination at the customer's discretion before the end of the contract's term or may permit termination or impose other penalties if the company does not meet the performance levels specified in the contracts.

The company's contracts with governmental entities are subject to the availability of appropriated funds. These contracts also contain provisions allowing the governmental entity to terminate the contract at the governmental entity's discretion before the end of the contract's term. In addition, if the company's performance is unacceptable to the customer under a government contract, the government retains the right to pursue remedies under the affected contract, which remedies could include termination.

Certain of the company's outsourcing agreements require that the company's prices be benchmarked if the customer requests it and provide that those prices may be adjusted downward if the pricing for similar services in the market has changed. As a result, revenues anticipated at the beginning of the terms of these contracts may decline in the future.

Some of the company's systems integration contracts are fixed-price contracts under which the company assumes the risk for delivery of the contracted services

and products at an agreed-upon fixed price. Should the company experience problems in performing fixed-price contracts on a profitable basis, adjustments to the estimated cost to complete may be required. Future results will depend on the company's ability to perform these services contracts profitably.

The company's contracts with U.S. governmental agencies may subject the company to audits, criminal penalties, sanctions and other expenses and fines. The company frequently enters into contracts with governmental entities. U.S. government agencies, including the Defense Contract Audit Agency and the Department of Labor, routinely audit government contractors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The U.S. government also may review the adequacy of, and a contractor's compliance with contract terms and conditions, its systems and policies, including the contractor's purchasing, property, estimating, billing, accounting, compensation and management information systems. Any costs found to be overcharged or improperly allocated to a specific contract or any amounts improperly billed or charged for products or services will be subject to reimbursement to the government. In addition, government contractors, such as the company, are required to disclose credible evidence of certain violations of law and contract overpayments to the federal government. If the company is found to have participated in improper or illegal activities, the company may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government. Any negative publicity related to such contracts, regardless of the accuracy of such publicity, may adversely affect the company's business or reputation.

The company may face damage to its reputation or legal liability if its clients are not satisfied with its services or products. The success of the company's business is dependent on strong, long-term client relationships and on its reputation for responsiveness and quality. As a result, if a client is not satisfied with the company's services or products, its reputation could be damaged and its business adversely affected. Allegations by private litigants or regulators of improper conduct, as well as negative publicity and press speculation about the company, whatever the outcome and whether or not valid, may harm its reputation. In addition to harm to reputation, if the company fails to meet its contractual obligations, it could be subject to legal liability, which could adversely affect its business, operating results and financial condition.

Future results will depend in part on the performance and capabilities of third parties with whom the company has commercial relationships. The company has commercial relationships with suppliers, channel partners and other parties that have complementary products, services or skills. Future results will depend, in part, on the performance and capabilities of these third parties, on the ability of external suppliers to deliver components at reasonable prices and in a timely manner, and on the financial condition of, and the company's relationship with, distributors and other indirect channel partners.

More than half of the company's revenue is derived from operations outside of the United States, and the company is subject to the risks of doing business internationally. More than half of the company's total revenue is derived from international operations. The risks of doing business internationally include foreign currency exchange rate fluctuations, currency restrictions and devaluations, changes in political or economic conditions, trade protection measures, import or export licensing requirements, multiple and possibly overlapping and conflicting tax laws, new tax legislation, weaker intellectual property protections in some jurisdictions and additional legal and regulatory compliance requirements applicable to businesses that operate internationally, including the Foreign Corrupt Practices Act and non-U.S. laws and regulations.

Financial market conditions may inhibit the company's ability to access capital and credit markets to address its liquidity needs. Financial market conditions may impact the company's ability to borrow, to refinance its outstanding debt, or to utilize surety bonds, letters of credit, foreign exchange derivatives and other financial instruments the company uses to conduct its business. Although the company primarily uses cash on hand to address its liquidity needs, its ability to do so assumes that its operations will continue to generate sufficient cash.

The company's services or products may infringe upon the intellectual property rights of others. The company cannot be sure that its services and products do not infringe on the intellectual property rights of third parties, and it may

have infringement claims asserted against it or against its clients. These claims could cost the company money, prevent it from offering some services or products, or damage its reputation.

Pending litigation could affect the company's results of operations or cash flow. There are various lawsuits, claims, investigations and proceedings that have been brought or asserted against the company, which arise in the ordinary course of business, including actions with respect to commercial and government contracts, labor and employment, employee benefits, environmental matters, intellectual property and non-income tax and employment compensation in Brazil. See note (I) of the Notes to Consolidated Financial Statements for more information on litigation. The company believes that it has valid defenses with respect to legal matters pending against it. Litigation is inherently unpredictable, however, and it is possible that the company's results of operations or cash flow could be materially affected in any particular period by the resolution of one or more of the legal matters pending against it.

The company could face business and financial risk in implementing future dispositions or acquisitions. As part of the company's business strategy, it may from time to time consider disposing of existing technologies, products and businesses that may no longer be in alignment with its strategic direction, including transactions of a material size, or acquiring complementary technologies, products and businesses. Potential risks with respect to dispositions include difficulty finding buyers or alternative exit strategies on acceptable terms in a timely manner; potential loss of employees; and dispositions at unfavorable prices or on unfavorable terms, including relating to retained liabilities. Any acquisitions may result in the incurrence of substantial additional indebtedness or contingent liabilities. Acquisitions could also result in potentially dilutive issuances of equity securities and an increase in amortization expenses related to intangible assets. Additional potential risks associated with acquisitions include integration difficulties; difficulties in maintaining or enhancing the profitability of any acquired business; risks of entering markets in which the company has no or limited prior experience; potential loss of employees or failure to maintain or renew any contracts of any acquired business; and expenses of any undiscovered or potential liabilities of the acquired product or business, including relating to employee benefits contribution obligations or environmental requirements. Further, with respect to both dispositions and acquisitions, management's attention could be diverted from other business concerns. Adverse credit conditions could also affect the company's ability to consummate dispositions or acquisitions. The risks associated with dispositions and acquisitions could have a material adverse effect upon the company's business, financial condition and results of operations. There can be no assurance that the company will be successful in consummating future dispositions or acquisitions on favorable terms or at all.

The company believes that its ability to use its U.S. federal net operating loss carryforwards and other tax attributes is limited. Internal Revenue Code Sections 382 and 383 provide annual limitations with respect to the ability of a corporation to utilize its net operating loss (as well as certain built-in losses) and tax credit carryforwards, respectively (Tax Attributes), against future U.S. taxable income, if the corporation experiences an ownership change. In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. The company regularly monitors ownership changes (as calculated for purposes of Section 382). Based on currently available information, the company believes that an ownership change may have occurred during the first quarter of 2011, for purposes of the rules described above. However, the final determination of whether an ownership change has occurred is currently subject to a number of discretionary tax rules and factual uncertainties. Moreover, any future transaction or transactions and the timing of such transaction or transactions could trigger additional ownership changes under Section 382.

In the event of an ownership change, utilization of the company's Tax Attributes will be subject to an estimated overall annual limitation determined in part by multiplying the total aggregate market value of the company's common stock immediately preceding the ownership change by the applicable long-term tax-exempt rate, possibly subject to increase based on the built-in gain, if any, in the company's assets at the time of the ownership change. Any unused annual limitation may be carried over to later years. Future U.S. taxable income may not be fully offset by existing Tax Attributes, if such income exceeds the company's annual limitation. However, based on presently available information and the existence of tax planning strategies, currently the company does not expect to incur a cash tax liability in the near term. The company maintains a full valuation allowance against the realization of all U.S. as well as certain foreign deferred tax assets in excess of deferred tax liabilities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the company's assessment of its sensitivity to market risk since its disclosure in its Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Item 4. Controls and Procedures

The company's management, with the participation of the company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on this evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, the company's disclosure controls and procedures are effective. Such evaluation did not identify any change in the company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

Information with respect to litigation is set forth in note (I) of the Notes to Consolidated Financial Statements, and such information is incorporated herein by reference.

Item 1A. Risk Factors

See Factors that may affect future results in Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of risk factors.

Item 6. Exhibits

(a) Exhibits
See Exhibit Index

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNISYS CORPORATION

Date: October 27, 2011

By: /s/ Janet Brutschea Haugen
Janet Brutschea Haugen
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

By: /s/ Scott Hurley
Scott Hurley
Vice President and
Corporate Controller
(Chief Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Unisys Corporation (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on April 30, 2010)
3.2	Certificate of Designations of the registrant's 6.25% Mandatory Convertible Preferred Stock, Series A (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on March 1, 2011)
3.3	Certificate of Amendment to Restated Certificate of Incorporation of Unisys Corporation (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on April 28, 2011)
3.4	Bylaws of Unisys Corporation, as amended through April 29, 2010 (incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K filed on April 30, 2010)
12	Statement of Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of J. Edward Coleman required by Rule 13a-14(a) or Rule 15d-14(a)
31.2	Certification of Janet Brutschea Haugen required by Rule 13a-14(a) or Rule 15d-14(a)
32.1	Certification of J. Edward Coleman required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	Certification of Janet Brutschea Haugen required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

* Furnished, not filed.