UNISYS CORP
Form 10-Q
November 01, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

¨ **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)

Delaware	**38-0387840**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

801 Lakeview Drive, Suite 100

Blue Bell, Pennsylvania	**19422**
(Address of principal executive offices)	**(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 x 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 (§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 x 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.

Large Accelerated Filer x	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 x

Number of shares of Common Stock outstanding as of September 30, 2012: 43,973,601.

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements.

UNISYS CORPORATION

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Millions)

	September 30, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	$ 541.6	$ 714.9
Accounts and notes receivable, net	602.2	673.0
Inventories:		
Parts and finished equipment	32.7	38.1
Work in process and materials	26.3	26.7
Deferred income taxes	23.7	27.1
Prepaid expenses and other current assets	98.2	123.6
Total	1,324.7	1,603.4
Properties	1,264.0	1,257.2
Less-Accumulated depreciation and amortization	1,088.5	1,065.9
Properties, net	175.5	191.3
Outsourcing assets, net	119.3	137.9
Marketable software, net	130.2	129.8
Prepaid postretirement assets	22.0	43.9
Deferred income taxes	176.5	181.5
Goodwill	192.2	192.5
Other long-term assets	114.1	131.9
Total	$ 2,254.5	$ 2,612.2
Liabilities and deficit		
Current liabilities		
Notes payable	$ .2	$
Current maturities of long-term debt	.5	.9
Accounts payable	221.1	241.6
Deferred revenue	362.8	448.1
Other accrued liabilities	368.8	425.5
Total	953.4	1,116.1
Long-term debt	210.1	358.8
Long-term postretirement liabilities	2,032.1	2,224.0
Long-term deferred revenue	116.4	120.3
Other long-term liabilities	95.1	104.0
Commitments and contingencies		
Deficit		

6.25% mandatory convertible preferred stock, net of issuance costs, shares issued: 2012; 2.6, 2011; 2.6	249.7	249.7
Common stock, shares issued:		
2012; 44.3, 2011; 43.8	.4	.4
Accumulated deficit	(1,976.9)	(2,036.6)
Treasury stock, shares at cost:		
2012; .4, 2011; .3	(48.8)	(48.1)
Paid-in capital	4,227.0	4,217.4
Accumulated other comprehensive loss	(3,616.1)	(3,700.9)
Total Unisys stockholders deficit	(1,164.7)	(1,318.1)
Noncontrolling interests	12.1	7.1
Total deficit	(1,152.6)	(1,311.0)
Total	$ 2,254.5	$ 2,612.2

See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Millions, except per share data)

	Three Months Ended September 30 2012	Three Months Ended September 30 2011	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011
Revenue				
Services	$ 748.0	$ 876.3	$ 2,386.7	$ 2,519.3
Technology	129.4	143.8	340.4	349.2
	877.4	1,020.1	2,727.1	2,868.5
Costs and expenses				
Cost of revenue:				
Services	612.5	680.0	1,927.0	2,010.6
Technology	46.3	55.3	112.5	151.2
	658.8	735.3	2,039.5	2,161.8
Selling, general and administrative	138.6	153.3	422.0	446.5
Research and development	18.8	18.5	61.0	57.2
	816.2	907.1	2,522.5	2,665.5
Operating profit	61.2	113.0	204.6	203.0
Interest expense	7.8	12.5	25.0	51.7
Other income (expense), net	(25.8)	16.6	(34.9)	(56.6)
Income before income taxes	27.6	117.1	144.7	94.7
Provision for income taxes	32.7	33.4	76.8	52.4
Consolidated net income (loss)	(5.1)	83.7	67.9	42.3
Net income attributable to noncontrolling interests	3.3	1.0	8.2	6.6
Net income (loss) attributable to Unisys Corporation	(8.4)	82.7	59.7	35.7
Preferred stock dividends	4.0	4.1	12.1	9.5
Net income (loss) attributable to Unisys Corporation common shareholders	$ (12.4)	$ 78.6	$ 47.6	$ 26.2
Earnings (loss) per common share attributable to Unisys Corporation				
Basic	$ (.28)	$ 1.82	$ 1.09	$ .61
Diluted	$ (.28)	$ 1.63	$ 1.08	$ .60

See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Millions)

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Consolidated net income (loss)	$ (5.1)	$ 83.7	$ 67.9	$ 42.3
Other comprehensive income				
Foreign currency translation	24.4	(70.8)	19.9	(45.4)
Postretirement adjustments, net of tax of $(2.8) and $(9.6) in 2012 and $7.7 and $4.6 in 2011	19.2	52.3	66.6	80.2
Total other comprehensive income	43.6	(18.5)	86.5	34.8
Comprehensive income	38.5	65.2	154.4	77.1
Comprehensive income attributable to noncontrolling interests	(3.1)	.2	(9.9)	(7.9)
Comprehensive income attributable to Unisys Corporation	$ 35.4	$ 65.4	$ 144.5	$ 69.2

See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Millions)

	Nine Months Ended September 30 2012	2011
Cash flows from operating activities		
Consolidated net income	$ 67.9	$ 42.3
Add (deduct) items to reconcile consolidated net income to net cash provided by operating activities:		
Loss on debt extinguishment	30.6	77.6
Employee stock compensation	11.8	12.8
Company stock issued for U.S. 401(k) plan	6.2	9.6
Depreciation and amortization of properties	41.8	50.8
Depreciation and amortization of outsourcing assets	44.1	48.2
Amortization of marketable software	42.5	50.9
Disposal of capital assets	6.2	1.0
(Gain) loss on sale of businesses and assets	(11.7)	.3
Decrease in deferred income taxes, net	31.0	33.4
Decrease in receivables, net	58.0	89.5
Decrease in inventories	5.1	21.3
Decrease in accounts payable and other accrued liabilities	(151.8)	(254.6)
Decrease in other liabilities	(183.6)	(43.2)
Decrease in other assets	112.0	17.6
Other	(2.7)	.2
Net cash provided by operating activities	107.4	157.7
Cash flows from investing activities		
Proceeds from investments	2,786.6	396.9
Purchases of investments	(2,784.2)	(394.5)
Restricted deposits	(1.1)	30.1
Investment in marketable software	(42.9)	(36.9)
Capital additions of properties	(26.0)	(32.9)
Capital additions of outsourcing assets	(27.8)	(31.3)
Net proceeds (payments) from sale of businesses and assets	5.2	(15.0)
Net cash used for investing activities	(90.2)	(83.6)
Cash flows from financing activities		
Payments of long-term debt	(388.9)	(462.5)
Proceeds from issuance of long-term debt	204.8	
Net proceeds from short-term borrowing	.2	
Proceeds from issuance of preferred stock, net of issuance costs		249.7
Dividend paid to noncontrolling interests	(4.5)	(.4)
Dividends paid on preferred stock	(12.1)	(8.1)
Proceeds from exercise of stock options	.4	1.4
Financing fees		(2.2)
Net cash used for financing activities	(200.1)	(222.1)
Effect of exchange rate changes on cash and cash equivalents	9.6	(13.0)
Decrease in cash and cash equivalents	(173.3)	(161.0)

Cash and cash equivalents, beginning of period	714.9	828.3
Cash and cash equivalents, end of period	$ 541.6	$ 667.3

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, 2011 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, 2011.

a. Earnings per Share. The following table shows how earnings per common share attributable to Unisys Corporation was computed for the three and nine months ended September 30, 2012 and 2011 (dollars in millions, shares in thousands):

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2012	2011	2012	2011
Basic Earnings (Loss) Per Common Share				
Net income (loss) attributable to Unisys Corporation common shareholders	$ (12.4)	$ 78.6	$ 47.6	$ 26.2
Weighted average shares	43,966	43,246	43,827	43,063
Total	$ (.28)	$ 1.82	$ 1.09	$ .61
Diluted Earnings (Loss) Per Common Share				
Net income (loss) attributable to Unisys Corporation common shareholders	$ (12.4)	$ 78.6	$ 47.6	$ 26.2
Add preferred stock dividends		4.1		
Net income (loss) attributable to Unisys Corporation for diluted earnings per share	$ (12.4)	$ 82.7	$ 47.6	$ 26.2
Weighted average shares	43,966	43,246	43,827	43,063
Plus incremental shares from assumed conversions				
Employee stock plans		464	446	572
Preferred stock		6,913		
Adjusted weighted average shares	43,966	50,623	44,273	43,635

Total	$	(.28)	$	1.63	$	1.08	$	.60

In the nine months ended September 30, 2012 and 2011, the following weighted-average number of stock options and restricted stock units were antidilutive and therefore excluded from the computation of diluted earnings per share (in thousands): 2,148 and 2,163, respectively. In the nine months ended September 30, 2012 and 2011, 6,913 and 5,402 (in thousands) weighted-average number of mandatory convertible preferred stock were antidilutive and therefore excluded from the computation of diluted earnings per share, respectively.

b. Pension and Postretirement Benefits. Net periodic pension expense for the three and nine months ended September 30, 2012 and 2011 is presented below (in millions of dollars):

	Three Months Ended Sept. 30, 2012			Three Months Ended Sept. 30, 2011		
	Total	U.S. Plans	Int l. Plans	Total	U.S. Plans	Int l. Plans
Service cost	$ 2.3	$	$ 2.3	$ 2.3	$	$ 2.3
Interest cost	91.3	63.8	27.5	98.1	66.0	32.1
Expected return on plan assets	(105.3)	(71.4)	(33.9)	(118.8)	(84.4)	(34.4)
Amortization of prior service cost	(.1)	.1	(.2)	.2	.1	.1
Recognized net actuarial loss	41.7	31.9	9.8	26.7	19.7	7.0
Net periodic pension expense	$ 29.9	$ 24.4	$ 5.5	$ 8.5	$ 1.4	$ 7.1

	Nine Months Ended Sept. 30, 2012			Nine Months Ended Sept. 30, 2011		
	Total	U.S. Plans	Int l. Plans	Total	U.S. Plans	Int l. Plans
Service cost	$ 6.5	$	$ 6.5	$ 8.4	$	$ 8.4
Interest cost	272.7	188.2	84.5	294.1	198.0	96.1
Expected return on plan assets	(315.9)	(214.3)	(101.6)	(355.9)	(253.1)	(102.8)
Amortization of prior service cost	.2	.5	(.3)	.4	.5	(.1)
Recognized net actuarial loss	118.9	91.8	27.1	79.2	58.9	20.3
Curtailment gain	(5.7)		(5.7)			
Net periodic pension expense	$ 76.7	$ 66.2	$ 10.5	$ 26.2	$ 4.3	$ 21.9

On July 6, 2012, legislation was signed into law in the U.S., which, among other things, provides defined benefit plan sponsors with funding relief. The legislation includes provisions regarding interest rate stabilization for pension plans as well as amendments regarding an increase in future Pension Benefit Guarantee Corporation premiums. Based on the Internal Revenue Service published rates, the new guidelines will reduce the company s cash funding requirements in 2012 for its U.S. qualified defined benefit pension plan from the previous estimate of $143 million to $111.1 million.

In 2012, the company estimates that it will make cash contributions of approximately $200 million to its worldwide defined benefit pension plans, which is comprised of $111 million for the company s U.S. qualified defined benefit pension plan and $89 million primarily for non-U.S. defined benefit pension plans. In 2011, the company made cash contributions of $82.7 million to its worldwide defined benefit pension plans. For the nine months ended September 30, 2012 and 2011, $175.1 million and $63.6 million, respectively, of cash contributions have been made.

Net periodic postretirement benefit expense for the three and nine months ended September 30, 2012 and 2011 is presented below (in millions of dollars):

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2012	2011	2012	2011
Service cost	$ .2	$ .1	$ .4	$ .3
Interest cost	2.2	2.4	6.7	7.3
Expected return on assets	(.1)	(.1)	(.4)	(.4)
Amortization of prior service cost	.4	.5	1.3	1.4
Recognized net actuarial loss	1.1	1.0	3.3	3.0
Net periodic postretirement benefit expense	$ 3.8	$ 3.9	$ 11.3	$ 11.6

The company expects to make cash contributions of approximately $23 million to its postretirement benefit plan in 2012 compared with $21.9 million in 2011. For the nine months ended September 30, 2012 and 2011, $12.1 million and $15.1 million, respectively, of cash contributions have been made.

c. Fair Value Measurements. 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, 2012 and 2011, the notional amount of these contracts was $409.0 million and $103.3 million, respectively. At September 30, 2012 and 2011, the fair value of such contracts was a net gain of $.7 million and a net loss of $.1 million, respectively, of which $.9 million and $.2 million, respectively, has been recognized in Prepaid expenses and other current assets and $.2 and $.3 million, respectively, has been recognized in Other accrued liabilities in the company s consolidated balance sheet. For the nine months ended September 30, 2012 and 2011, changes in the fair value of these instruments were a gain of $2.3 million and a gain of $1.8 million, respectively, which has 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, 2012 and December 31, 2011, the carrying amount of long-term debt was less than fair value of such debt by approximately $6 million and $37 million, respectively. The fair value of such debt is based on market prices (Level 2 inputs).

d. Stock Options. 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, 2012, 4.0 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	
	2012	2011
Weighted-average fair value of grant	$ 9.73	$ 20.12
Risk-free interest rate	.54%	1.71%
Expected volatility	71.29%	71.31%
Expected life of options in years	3.65	3.62
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, 2012 and 2011, the company recorded $11.8 million and $12.8 million of share-based compensation expense, respectively, which is comprised of $4.7 million and $5.1 million of restricted stock unit expense and $7.1 million and $7.7 million of stock option expense, respectively.

A summary of stock option activity for the nine months ended September 30, 2012 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, 2011	2,707	$ 56.81		
Granted	685	19.48		
Exercised	(60)	5.99		
Forfeited and expired	(545)	123.55		
Outstanding at Sept. 30, 2012	2,787	35.49	2.61	$ 9.0
Expected to vest at Sept. 30, 2012	1,186	27.64	3.77	.9
Exercisable at Sept. 30, 2012	1,557	41.80	1.68	8.1

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, 2012. 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, 2012 and 2011 was $.8 million and $4.4 million, respectively. As of September 30, 2012, $7.8 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.4 years.

A summary of restricted stock unit activity for the nine months ended September 30, 2012 follows (shares in thousands):

	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2011	384	$ 32.39
Granted	164	19.41
Vested	(171)	24.21
Forfeited and expired	(20)	27.42
Outstanding at Sept. 30, 2012	357	25.23

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, 2012 and 2011 was $3.2 million and $11.3 million, respectively. As of September 30, 2012, there was $4.8 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 1.8 years. The aggregate weighted-average grant-date fair value of restricted share units vested during the nine months ended September 30, 2012 and 2011 was $4.1 million and $5.5 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, 2012 and 2011 was $.4 million and $1.4 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.

e. Segment Information. 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, 2012 and 2011 was $.4 million and $.7 million, respectively. The amount for the nine months ended September 30, 2012 and 2011 was $9.8 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 pension income or expense, restructuring charges and unusual and nonrecurring items, which are included in Corporate. 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, 2012 and 2011 is presented below (in millions of dollars):

	Total	Corporate	Services	Technology
Three Months Ended Sept. 30, 2012				
Customer revenue	$ 877.4		$ 748.0	$ 129.4
Intersegment		$ (16.2)	.6	15.6
Total revenue	$ 877.4	$ (16.2)	$ 748.6	$ 145.0
Operating income	$ 61.2	$ (25.8)	$ 44.8	$ 42.2
Three Months Ended Sept. 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
Operating income	$ 113.0	$ (6.6)	$ 75.9	$ 43.7
Nine Months Ended Sept. 30, 2012				
Customer revenue	$ 2,727.1		$ 2,386.7	$ 340.4
Intersegment		$ (85.8)	2.0	83.8
Total revenue	$ 2,727.1	$ (85.8)	$ 2,388.7	$ 424.2

Operating income	$ 204.6	$ (64.6)	$ 151.2	$ 118.0
Nine Months Ended Sept. 30, 2011				
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

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

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2012	2011	2012	2011
Total segment operating income	$ 87.0	$ 119.6	$ 269.2	$ 229.1
Interest expense	(7.8)	(12.5)	(25.0)	(51.7)
Other income (expense), net	(25.8)	16.6	(34.9)	(56.6)
Corporate and eliminations	(25.8)	(6.6)	(64.6)	(26.1)
Total income before income taxes	$ 27.6	$ 117.1	$ 144.7	$ 94.7

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	
	2012	2011	2012	2011
Services				
Systems integration and consulting	$ 230.6	$ 305.8	$ 801.9	$ 876.7
Outsourcing	363.3	391.2	1,110.9	1,112.6
Infrastructure services	107.1	124.1	330.0	364.1
Core maintenance	47.0	55.2	143.9	165.9
	748.0	876.3	2,386.7	2,519.3
Technology				
Enterprise-class software and servers	123.5	123.4	320.0	302.6
Other technology	5.9	20.4	20.4	46.6
	129.4	143.8	340.4	349.2
Total	$ 877.4	$ 1,020.1	$ 2,727.1	$ 2,868.5

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	
	2012	2011	2012	2011
United States	$ 344.0	$ 452.8	$ 1,094.3	$ 1,177.0
United Kingdom	114.2	100.8	325.5	299.7
Other international	419.2	466.5	1,307.3	1,391.8
Total	$ 877.4	$ 1,020.1	$ 2,727.1	$ 2,868.5

f. Accumulated Other Comprehensive Income. Accumulated other comprehensive loss as of December 31, 2011 and September 30, 2012 is as follows (in millions of dollars):

	Total	Translation Adjustments	Postretirement Plans
Balance at December 31, 2011	$ (3,700.9)	$ (649.1)	$ (3,051.8)
Change during period	84.8	17.0	67.8
Balance at Sept. 30, 2012	$ (3,616.1)	$ (632.1)	$ (2,984.0)

Noncontrolling interests as of December 31, 2011 and September 30, 2012 is as follows (in millions of dollars):

	Noncontrolling Interests
Balance at December 31, 2011	$ 7.1
Net income	8.2
Translation adjustments	2.9
Dividends declared to non-controlling interests	(3.5)
Sale of subsidiary	(1.4)
Postretirement plans	(1.2)
Balance at September 30, 2012	$ 12.1

g. Supplemental Cash Flow Information. Cash paid for income taxes during the nine months ended September 30, 2012 and 2011 was $30.4 million and $63.4 million, respectively.

Cash paid for interest during the nine months ended September 30, 2012 and 2011 was $42.5 million and $66.3 million, respectively.

h. Accounting Standards. Effective January 1, 2012, the company adopted Financial Accounting Standards Board (FASB) authoritative guidance that amends previous guidance for the presentation of comprehensive income. The new standard eliminates the option to present other comprehensive income in the statement of changes in equity. Under the revised guidance, an entity has 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 company is providing two separate but consecutive financial statements. The new standard was required to be applied retrospectively. Other than the change in presentation, the adoption of the new standard did not have an impact on the company s consolidated financial statements.

Effective January 1, 2012, the company adopted FASB 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. Adoption of the amendments did not have a material impact on the company s consolidated financial statements.

In December 2011, the FASB issued authoritative guidance that requires disclosure of information pertaining to the offsetting of assets and liabilities in the financial statements. The guidance, which requires disclosure in both interim and annual periods, is effective January 1, 2013. The company has determined that the new guidance will not have an impact on its consolidated financial statements, other than additional disclosures.

i. Commitments and Contingencies. 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, have been 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 is having 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 provided pricing and other information to the GSA auditors and has worked 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.

The company s Brazilian operations, along with those of many other companies doing business in Brazil, are involved in various litigation matters, including numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax-related matters pertain to value added taxes, customs, duties, sales and other non-income related tax exposures. The labor-related matters include claims related to compensation matters. The company believes that appropriate accruals have been established for such matters based on information currently available. At September 30, 2012, excluding those matters that have been assessed by management as being remote as to the likelihood of ultimately resulting in a loss, the amount related to unreserved tax-related matters, inclusive of any related interest, is estimated to be up to approximately $143 million.

With respect to the specific legal proceedings and claims described above, except as otherwise noted, either (i) the amount or range of possible losses in excess of amounts accrued, if any, is not reasonably estimable or (ii) the company believes that the amount or range of possible losses in excess of amounts accrued that are estimable would not be material.

Litigation is inherently unpredictable and unfavorable resolutions could occur. Accordingly, it is possible that an adverse outcome from such matters could exceed the amounts accrued in an amount that could be material to the company s financial condition, results of operations and cash flows in any particular reporting period.

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, 2012, it has adequate provisions for any such matters.

j. Income Taxes. 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, refundable tax credits and withholding taxes not creditable against future taxable income. 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, 2012 is an increase in the company s income tax provision of $9.2 million caused by a decrease in net deferred tax assets due to a UK rate change. The UK government reduced its corporate tax rate from 25% to 24% effective April 1, 2012, and from 24% to 23% effective April 1, 2013. These changes were considered to be enacted for U.S. GAAP purposes in July of 2012, when all legislative procedures were completed and the Finance Act of 2012 received Royal Assent.

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 and an increase in the company s income tax provision of $7.6 million caused by a decrease in net deferred tax assets due to a UK rate change. 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.

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 information received through the current quarter, the company has determined that, for purposes of the rules of Section 382 described above, an ownership change occurred in February 2011. Moreover, any future transaction or transactions and the timing of such transaction or transactions could trigger additional ownership changes under Section 382.

As a result of the 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 adjusted aggregate market value of the company s common stock immediately preceding the ownership change (approximately $1.6 billion) by the applicable long-term tax-exempt rate (4.47% for February 2011), subject to increase or decrease based on the built-in gain or built-in loss, 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 U.S. cash tax liability in the near term. The company maintains a full valuation allowance against the realization of all U.S. deferred tax assets as well as certain foreign deferred tax assets in excess of deferred tax liabilities.

k. Long-Term Debt. On August 21, 2012, the company issued $210 million of 6.25% senior notes due 2017. During the nine months ended September 30, 2012, the company retired an aggregate principal amount of $362.3 million of its long-term debt, comprised of all of the remaining $186.2 million of its 12.75% senior secured notes due 2014, all of the remaining $25.5 million of its 14 $^{1}/_{4}$% senior secured notes due 2015 and all of the remaining $150.6 million of its 12.50% senior notes due 2016. The company used cash on hand and the net proceeds from the issuance of the 6.25% senior notes due 2017 to fund the retirement of this debt. As a result of these retirements, the company recognized charges of $30.6 million in Other income (expense), net in the nine months ended September 30, 2012, comprised of $26.6 million of premium paid and $4.0 million for the write off of unamortized discounts, issuance costs and gain related to the portion of the notes retired. During the three months ended September 30, 2012, the company recognized $23.1 million of such charges. During the nine months ended September 30, 2011, the company recognized charges of $77.6 million in Other income (expense), net related to debt redemptions.

l. Sale of Business. On March 30, 2012, the company completed the sale of its interest in its South African joint venture. A pretax gain of $10.6 million has been reported as a reduction of selling, general and administrative expense in the company s consolidated statement of income. Going forward, the company will serve this market through a distributor. The joint venture, which had operations in both of the company s reporting segments of Services and Technology, generated full year 2011 revenue and pretax income of approximately $40 million and $8 million, respectively.

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 nine months ended September 30, 2012, the company reported net income of $47.6 million, or $1.08 per diluted share, compared with prior period net income of $26.2 million, or $.60 per diluted share. Revenue for the nine months ended September 30, 2012 was $2,727.1 million compared with $2,868.5 million for the nine months ended September 30, 2011. Foreign currency fluctuations had a 3-percentage point negative impact on revenue in the current period compared with the year-ago period. Also impacting the company s nine month 2012 revenue was a $114 million, or 23%, decline in the company s U.S. Federal government business, reflecting continued softness in this business. For the nine months ended September 30, 2012 and September 30, 2011, the company reported income before income taxes of $144.7 million and $94.7 million, respectively. The company s pretax results for the nine months ended September 30, 2012 and 2011 included debt-reduction charges of approximately $30.6 million and $77.6 million, respectively; pension expense of $76.7 million and $26.2 million, respectively; foreign exchange losses of $7.3 million and foreign exchange gains of $21.1 million, respectively; a gain of $10.6 million related to the sale of a subsidiary in the nine months ended September 30, 2012 discussed below; and a charge of $13.5 million in the nine months ended September 30, 2011 related to a Brazil matter discussed below.

For the three months ended September 30, 2012, the company reported a net loss of $12.4 million, or a $.28 loss per diluted share, compared with prior period net income of $78.6 million, or $1.63 per diluted share. Revenue for the three months ended September 30, 2012 was $877.4 million compared with $1,020.1 million for the three months ended September 30, 2011. The company s results for the third quarter of 2012 were impacted by weak demand for systems integration services and lower revenue in its U.S. Federal Systems business. Also impacting the third-quarter 2012 results were $23.1 million of debt reduction charges and higher pension expense of $28.9 million.

Results of operations

Company results

Three months ended September 30, 2012 compared with the three months ended September 30, 2011

Revenue for the quarter ended September 30, 2012 was $877.4 million compared with $1,020.1 million for the third quarter of 2011, a decrease of 14% from the prior year. Approximately 3 percentage points of the decline were due to a $52.4 million, or 29%, decline in revenue from the company s U.S. Federal business. Foreign currency fluctuations had a 4-percentage point negative impact on revenue in the current period compared with the year-ago period.

Services revenue decreased 15% and Technology revenue decreased 10% in the current quarter compared with the year-ago period. U.S. revenue decreased 24% in the third quarter compared with the year-ago period. Approximately 3 percentage points of the decline were due to the decline in revenue from the company s U.S. Federal business. International revenue decreased 6% in the current quarter principally due to declines in Europe, Brazil and Asia/Pacific, partially offset by an increase in Latin America (excluding Brazil) and Japan. Foreign currency had a 9-percentage-point negative impact on international revenue in the three months ended September 30, 2012 compared with the three months ended September 30, 2011.

Total gross profit margin was 24.9% in the three months ended September 30, 2012 compared with 27.9% in the three months ended September 30, 2011.

Selling, general and administrative expense in the three months ended September 30, 2012 was $138.6 million (15.8% of revenue) compared with $153.3 million (15.0% of revenue) in the year-ago period.

Research and development (R&D) expenses in the third quarter of 2012 were $18.8 million compared with $18.5 million in the third quarter of 2011.

For the third quarter of 2012, the company reported an operating profit of $61.2 million compared with an operating profit of $113.0 million in the third quarter of 2011.

For the three months ended September 30, 2012, pension expense was $29.9 million compared with pension expense of $8.5 million for the three months ended September 30, 2011. For the full year 2012, the company expects to recognize pension expense of approximately $107 million compared with $34.3 million for the full year of 2011. The increase in pension expense in 2012 from 2011 is principally due to lower expected returns on plan assets in the company s U.S. qualified defined benefit pension plan and lower discount rates. 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 principally based on where the salaries of active employees are charged.

Interest expense for the three months ended September 30, 2012 was $7.8 million compared with $12.5 million for the three months ended September 30, 2011 reflecting the company s debt reduction actions.

Other income (expense), net was an expense of $25.8 million in the third quarter of 2012 compared with income of $16.6 million in 2011. Included in the third quarter of 2012 were charges of $23.1 million related to debt redemptions and foreign exchange losses of $3.4 million. Included in the third quarter of 2011 were foreign exchange gains of $12.9 million and a charge of $7.1 million related to the Brazil matter discussed above.

Income before income taxes for the three months ended September 30, 2012 was $27.6 million compared with income of $117.1 million for the three months ended September 30, 2011. The provision for income taxes was $32.7 million in the current quarter compared with a provision of $33.4 million in the year-ago period. Included in the provision for taxes for the three months ended September 30, 2012 and 2011 was $9.2 million and $7.6 million, respectively, related to a UK tax rate change, as discussed in note (j) of the Notes to Consolidated Financial Statements.

As also discussed in note (j) 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 records 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. operations has no provision or benefit associated with it due to a full valuation allowance. As a result, the company s provision or benefit for taxes will vary significantly quarter to quarter depending on the geographic distribution of income.

Net loss for the three months ended September 30, 2012 was $12.4 million, or $.28 per diluted share, compared with net income of $78.6 million, or $1.63 per diluted share, for the three months ended September 30, 2011.

Nine months ended September 30, 2012 compared with the nine months ended September 30, 2011

Revenue for the nine months ended September 30, 2012 was $2,727.1 million compared with $2,868.5 million for the nine months ended September 30, 2011, a decrease of 5% from the prior year. Approximately 4 percentage points of the decline were due to a $114.4 million, or 23%, decline in revenue from the company s U.S. Federal business. Foreign currency fluctuations had a 3-percentage point negative impact on revenue in the current period compared with the year-ago period.

Services revenue decreased 5% and Technology revenue decreased 3% in the current period of 2012 compared with the year-ago period. U.S. revenue decreased 7% in the first nine months of 2012 compared with the year-ago period. Approximately 12 percentage points of the decline were due to the decline in revenue from the company s U.S. Federal business. International revenue decreased 3% in the current period due to declines in all regions with the exception of Pacific/Asia/Japan. Foreign currency had a 5-percentage-point negative impact on international revenue in the nine months ended September 30, 2012 compared with the nine months ended September 30, 2011.

Total gross profit margin was 25.2% in the nine months ended September 30, 2012 compared with 24.6% in the nine months ended September 30, 2011.

Selling, general and administrative expense in the nine months ended September 30, 2012 was $422.0 million (15.5% of revenue) compared with $446.5 million (15.6% of revenue) in the year-ago period. The current period includes a gain of $10.6 million related to the sale of a subsidiary which has been recorded as a reduction of selling, general and administrative expense (see note (l) of the Notes to Consolidated Financial Statements).

Research and development (R&D) expenses in the first nine months of 2012 were $61.0 million compared with $57.2 million in the year-ago period.

For the first nine months of 2012, the company reported an operating profit of $204.6 million compared with an operating profit of $203.0 million in the year-ago period.

For the nine months ended September 30, 2012, pension expense was $76.7 million compared with pension expense of $26.2 million for the nine months ended September 30, 2011.

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, 2012 was $25.0 million compared with $51.7 million for the nine months ended September 30, 2011 reflecting the company s debt reduction actions.

Other income (expense), net was an expense of $34.9 million in the first nine months of 2012 compared with expense of $56.6 million in 2011. Included in the first nine months of 2012 were debt reduction charges of $30.6 million and foreign exchange losses of $7.3 million. Included in the first nine months of 2011 were charges of $77.6 million related to debt redemptions and foreign exchange gains of $21.1 million.

Income before income taxes for the nine months ended September 30, 2012 was $144.7 million compared with income of $94.7 million for the nine months ended September 30, 2011. The provision for income taxes was $76.8 million in the current period compared with $52.4 million in the year-ago period. Included in the current-year period was $9.2 million due to the impact of a U.K. tax rate change. Included in the prior-year period 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 a U.K. tax rate change.

Net income for the nine months ended September 30, 2012 was $47.6 million, or $1.08 per diluted share, compared with net income of $26.2 million, or $.60 per diluted share, for the nine months ended September 30, 2011.

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, 2012 and 2011 was $.4 million and $.7 million, respectively. The amount for the nine months ended September 30, 2012 and 2011 was $9.8 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 pension income or expense, restructuring charges and unusual and nonrecurring items, which are included in Corporate. 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, 2012 compared with the three months ended September 30, 2011

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

	Total	Eliminations	Services	Technology
Three Months Ended Sept. 30, 2012				
Customer revenue	$ 877.4		$ 748.0	$ 129.4
Intersegment		$ (16.2)	.6	15.6
Total revenue	$ 877.4	$ (16.2)	$ 748.6	$ 145.0
Gross profit percent	24.9%		19.9%	59.9%
Operating profit percent	7.0%		6.0%	29.1%
Three Months Ended Sept. 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%

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 Sept. 30 2012	2011	Percent Change
Services			
Systems integration and consulting	$ 230.6	$ 305.8	(24.6)%
Outsourcing	363.3	391.2	(7.1)%
Infrastructure services	107.1	124.1	(13.7)%
Core maintenance	47.0	55.2	(14.9)%
	748.0	876.3	(14.6)%
Technology			
Enterprise-class software and servers	123.5	123.4	.1%
Other technology	5.9	20.4	(71.1)%
	129.4	143.8	(10.0)%
Total	$ 877.4	$ 1,020.1	(14.0)%

In the Services segment, customer revenue was $748.0 million for the three months ended September 30, 2012, down 14.6% from the three months ended September 30, 2011. Approximately 2 percentage points of the decline were due to the decline in revenue from the company s U.S. Federal business. Foreign currency translation had a 5-percentage-point negative impact on Services revenue in the current quarter compared with the year-ago period.

Revenue from systems integration and consulting decreased 24.6% to $230.6 million in the September 2012 quarter from $305.8 million in the September 2011 quarter. Contributing to the decline was lower sales of industry solutions and lower project work.

Outsourcing revenue decreased 7.1% for the three months ended September 30, 2012 to $363.3 million compared with the three months ended September 30, 2011, principally due to lower Information Technology Outsourcing (ITO) revenue. Approximately 2 percentage points of the decline were due to the decline in revenue from the company s U.S. Federal business.

Infrastructure services revenue decreased 13.7% for the three month period ended September 30, 2012 compared with the three month period ended September 30, 2011.

Core maintenance revenue declined 14.9% in the current quarter compared with the prior-year quarter.

Services gross profit was 19.9% in the third quarter of 2012 compared with 21.6% in the year-ago period. Services operating income percent was 6.0% in the three months ended September 30, 2012 compared with 8.7% in the three months ended September 30, 2011. The decrease in Services gross profit and operating profit margins reflected lower revenue levels as well as a different mix of Services revenue.

In the Technology segment, customer revenue declined 10.0% to $129.4 million in the current quarter compared with $143.8 million in the year-ago period, due to declines in other technology revenue. Foreign currency translation had a negative impact of approximately 4-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, was flat for the three months ended September 30, 2012 compared with the three months ended September 30, 2011.

Revenue from other technology decreased 71.1% for the three months ended September 30, 2012 compared with the three months ended September 30, 2011, principally due to lower sales of third-party technology products.

Technology gross profit was 59.9% in the current quarter compared with 57.4% in the year-ago quarter. Technology operating income percent was 29.1% in the three months ended September 30, 2012 compared with 25.8% in the three months ended September 30, 2011. The increase in Technology gross profit and operating profit margins reflected a richer mix of high margin ClearPath revenue.

Nine months ended September 30, 2012 compared with the nine months ended September 30, 2011

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

	Total	Eliminations	Services	Technology
Nine Months Ended Sept. 30, 2012				
Customer revenue	$ 2,727.1		$ 2,386.7	$ 340.4
Intersegment		$ (85.8)	2.0	83.8
Total revenue	$ 2,727.1	$ (85.8)	$ 2,388.7	$ 424.2
Gross profit percent	25.2%		19.9%	61.8%
Operating profit percent	7.5%		6.3%	27.8%
Nine Months Ended Sept. 30, 2011				
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%

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 Sept. 30		Percent
	2012	2011	Change
Services			
Systems integration and consulting	$ 801.9	$ 876.7	(8.5)%
Outsourcing	1,110.9	1,112.6	(.2)%
Infrastructure services	330.0	364.1	(9.4)%
Core maintenance	143.9	165.9	(13.3)%
	2,386.7	2,519.3	(5.3)%
Technology			
Enterprise-class software and servers	320.0	302.6	5.8%
Other technology	20.4	46.6	(56.2)%
	340.4	349.2	(2.5)%
Total	$ 2,727.1	$ 2,868.5	(4.9)%

In the Services segment, customer revenue was $2,386.7 million for the nine months ended September 30, 2012, down 5.3% from the nine months ended September 30, 2011. Approximately 2 percentage points of the decline were due to the decline in revenue from the company s U.S. Federal business. Foreign currency translation had a 3-percentage-point negative impact on Services revenue in the current period compared with the year-ago period.

Revenue from systems integration and consulting decreased 8.5% to $801.9 million for the nine months ended September 30, 2012 from $876.7 million for the nine months ended September 30, 2011. Approximately 8 percentage points of the decline were due to the decline in revenue from the company s U.S. Federal business.

Outsourcing revenue of $1,110.9 million was flat for the nine months ended September 30, 2012 compared with the nine months ended September 30, 2011.