

Edgar Filing: UNISYS CORP - Form 10-Q

UNISYS CORP
Form 10-Q
October 30, 2009

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, 2009

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
(State or other jurisdiction
of incorporation or organization)

38-0387840
(I.R.S. Employer
Identification No.)

Unisys Way
Blue Bell, Pennsylvania
(Address of principal executive offices)

19424
(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
(Section 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 Smaller Reporting Company
(Do not check if a smaller reporting company)

Edgar Filing: UNISYS CORP - Form 10-Q

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, 2009 42,279,463 (after giving effect to the one-for-ten reverse stock split, which became effective on October 26, 2009).

2

Part I - FINANCIAL INFORMATION
Item 1. Financial Statements.

UNISYS CORPORATION
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Millions)

	September 30, 2009	December 31, 2008
	-----	-----
Assets		

Current assets		
Cash and cash equivalents	\$ 473.6	\$ 544.0
Accounts and notes receivable, net	764.0	818.5
Inventories:		
Parts and finished equipment	65.1	64.7
Work in process and materials	59.7	70.7
Deferred income taxes	17.7	23.8
Prepaid expenses and other current assets	112.4	116.7
	-----	-----
Total	1,492.5	1,638.4
	-----	-----
Properties	1,438.5	1,416.0
Less-Accumulated depreciation and amortization	1,192.4	1,139.5
	-----	-----
Properties, net	246.1	276.5
	-----	-----
Outsourcing assets, net	292.0	314.9
Marketable software, net	175.3	202.0
Prepaid postretirement assets	55.6	20.7
Deferred income taxes	89.5	87.6
Goodwill	198.2	189.4
Other long-term assets	191.9	94.6
	-----	-----
Total	\$2,741.1	\$2,824.1
	=====	=====
Liabilities and stockholders' deficit		

Current liabilities		
Current maturities of long-term debt	\$ 66.0	\$ 1.5
Accounts payable	287.3	379.2
Other accrued liabilities	952.4	1,045.7
	-----	-----
Total	1,305.7	1,426.4
	-----	-----
Long-term debt	845.0	1,059.1
Long-term postretirement liabilities	1,410.5	1,497.0

Edgar Filing: UNISYS CORP - Form 10-Q

Other long-term liabilities	325.4	265.4
Commitments and contingencies		
Stockholders' deficit		
Common stock, shares issued:		
2009; 42.5, 2008; 37.2	.4	.4
Accumulated deficit	(2,521.2)	(2,596.0)
Treasury stock, shares at cost:		
2009; .2, 2008; .2	(44.9)	(44.8)
Paid-in capital	4,195.6	4,102.6
Accumulated other comprehensive loss	(2,803.9)	(2,904.6)
Noncontrolling interests	28.5	18.6
	-----	-----
Total stockholders' deficit	(1,145.5)	(1,423.8)
	-----	-----
Total	\$2,741.1	\$2,824.1
	=====	=====

See notes to consolidated financial statements.

3

UNISYS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Millions, except per share data)

	Three Months		Nine Months	
	Ended September 30		Ended September 30	
	2009	2008	2009	2008
	----	----	----	----
Revenue				
Services	\$1,006.0	\$1,152.1	\$3,019.8	\$3,486.2
Technology	153.6	160.3	368.4	467.5
	-----	-----	-----	-----
	1,159.6	1,312.4	3,388.2	3,953.7
Costs and expenses				
Cost of revenue:				
Services	793.1	937.6	2,402.7	2,814.2
Technology	60.7	82.8	187.0	250.5
	-----	-----	-----	-----
	853.8	1,020.4	2,589.7	3,064.7
Selling, general and administrative	163.5	218.4	506.3	701.9
Research and development	24.3	35.7	76.8	98.6
	-----	-----	-----	-----
	1,041.6	1,274.5	3,172.8	3,865.2
	-----	-----	-----	-----
Operating income	118.0	37.9	215.4	88.5
Interest expense	25.4	21.5	68.4	64.3
Other income (expense), net	(3.3)	(.9)	(7.0)	(8.4)
	-----	-----	-----	-----
Income before income taxes	89.3	15.5	140.0	15.8

Edgar Filing: UNISYS CORP - Form 10-Q

Provision for income taxes	26.2	45.1	58.4	72.5
	-----	-----	-----	-----
Consolidated net income (loss)	63.1	(29.6)	81.6	(56.7)
Net income attributable to noncontrolling interests	(2.0)	(5.1)	(6.8)	(15.4)
	-----	-----	-----	-----
Net income (loss) attributable to Unisys Corporation	\$ 61.1	\$ (34.7)	\$ 74.8	\$ (72.1)
	=====	=====	=====	=====
Earnings (loss) per share attributable to Unisys Corporation				
Basic	\$ 1.51	\$ (.96)	\$ 1.96	\$ (2.01)
	=====	=====	=====	=====
Diluted	\$ 1.48	\$ (.96)	\$ 1.93	\$ (2.01)
	=====	=====	=====	=====

See notes to consolidated financial statements.

4

UNISYS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Millions)

	Nine Months Ended September 30	
	2009	2008
	-----	-----
Cash flows from operating activities		
Consolidated net income (loss)	\$ 81.6	\$ (56.7)
Add (deduct) items to reconcile consolidated net income (loss) to net cash provided by operating activities:		
Employee stock compensation	(.3)	(.2)
Company stock issued for U.S. 401(k) plan	-	34.2
Depreciation and amortization of properties	71.7	80.4
Depreciation and amortization of outsourcing assets	113.9	126.0
Amortization of marketable software	70.3	90.0
Disposal of capital assets	5.7	8.6
Loss on sale of assets	4.7	-
Decrease in deferred income taxes, net	16.7	-
Decrease in receivables, net	96.4	175.9
Decrease in inventories	15.4	16.7
Decrease in accounts payable and other accrued liabilities	(248.8)	(215.9)
Increase (decrease) in other liabilities	6.0	(43.3)
Increase in other assets	(52.0)	(108.7)
Other	.5	9.4
	-----	-----
Net cash provided by operating activities	181.8	116.4
	-----	-----
Cash flows from investing activities		
Proceeds from investments	296.8	4,838.1
Purchases of investments	(294.9)	(4,847.9)
Collateralized letters of credit	(82.5)	-

Edgar Filing: UNISYS CORP - Form 10-Q

Investment in marketable software	(43.7)	(65.9)
Capital additions of properties	(32.1)	(51.8)
Capital additions of outsourcing assets	(73.4)	(96.6)
Purchases of businesses	(1.9)	(2.3)
	-----	-----
Net cash used for investing activities	(231.7)	(226.4)
	-----	-----
Cash flows from financing activities		
Net reduction in short-term borrowings	-	(.1)
Payment of long-term debt	(30.0)	(200.0)
Financing fees	(15.4)	(.8)
	-----	-----
Net cash used for financing activities	(45.4)	(200.9)
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	24.9	(25.5)
	-----	-----
Decrease in cash and cash equivalents	(70.4)	(336.4)
Cash and cash equivalents, beginning of period	544.0	830.2
	-----	-----
Cash and cash equivalents, end of period	\$ 473.6	\$ 493.8
	=====	=====

See notes to consolidated financial statements.

5

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 of 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. Illiquid credit markets, volatile equity and foreign currency markets and reductions in information technology spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with

Edgar Filing: UNISYS CORP - Form 10-Q

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, 2008 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, 2008.

a. On October 23, 2009, a one-for-ten reverse stock split of the company's common stock became effective. As a result of the stock split, every ten shares of issued and outstanding common stock were automatically combined into one issued and outstanding share of common stock without any change in the par value of the shares. Accordingly, the financial statements reflect the impact of the reverse stock split applied on a retroactive basis. The following have been retroactively adjusted: (1) balance sheet - the number of issued common shares; the number of treasury shares; the amount of common stock; and the amount of paid-in-capital, (2) earnings per share, and (3) share-based plan information.

6

b. The following table shows how earnings (loss) per share attributable to Unisys Corporation was computed for the three and nine months ended September 30, 2009 and 2008 (dollars in millions, shares in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
	----	----	----	----
Basic Earnings (Loss) Per Share				
Net income (loss) attributable to Unisys Corporation	\$ 61.1	\$ (34.7)	\$ 74.8	\$ (72.1)
	=====	=====	=====	=====
Weighted average shares	40,569	36,094	38,215	35,797
	=====	=====	=====	=====
Basic earnings (loss) per share	\$ 1.51	\$ (.96)	\$ 1.96	\$ (2.01)
	=====	=====	=====	=====
Diluted Earnings (Loss) Per Share				
Net income (loss) attributable to Unisys Corporation	\$ 61.1	\$ (34.7)	\$ 74.8	\$ (72.1)
	=====	=====	=====	=====
Weighted average shares	40,569	36,094	38,215	35,797
Plus incremental shares from assumed conversions of employee stock plans	834	-	451	-
	-----	-----	-----	-----
Adjusted weighted average shares	41,403	36,094	38,666	35,797
	=====	=====	=====	=====
Diluted earnings (loss) per share	\$ 1.48	\$ (.96)	\$ 1.93	\$ (2.01)
	=====	=====	=====	=====

At September 30, 2009 and 2008, 2.8 million and 3.4 million, respectively, of

Edgar Filing: UNISYS CORP - Form 10-Q

employee stock options were antidilutive and therefore excluded from the computation of diluted earnings per share.

c. A breakdown of the individual components of the company's cost-reduction charges follows (in millions of dollars):

	Headcount	Total	Work-Force Reductions		Idle
			U.S.	Int'l.	Lease Cost
	-----	-----	-----	-----	-----
Balance at December 31, 2008	787	\$ 95.8	\$ 25.1	\$ 27.2	\$ 43.5
Utilized	(720)	(57.9)	(21.2)	(22.4)	(14.3)
Changes in estimates and revisions	(39)	(4.7)	(.7)	(.3)	(3.7)
Translation adjustments	-	2.2	-	(.4)	2.6
	-----	-----	-----	-----	-----
Balance at Sept. 30, 2009	28	\$ 35.4	\$ 3.2	\$ 4.1	\$ 28.1
	=====	=====	=====	=====	=====
Expected future utilization:					
2009 remaining three months	28	\$ 12.0	\$ 3.2	\$ 4.1	\$ 4.7
Beyond 2009		23.4	-	-	23.4

Due to changes in estimates related to cost-reduction charges, \$4.7 million of expense was recorded in the three months ended September 30, 2009 compared with \$2.0 million recorded as expense in the year-ago period, and \$4.7 million was recorded as income in the current nine-month period compared with \$1.2 million recorded as expense in the year-ago nine-month period.

7

d. Net periodic pension expense (income) for the three and nine months ended September 30, 2009 and 2008 is presented below (in millions of dollars):

	Three Months Ended Sept. 30, 2009			Three Months Ended Sept. 30, 2008		
	Total	U.S. Plans	Int'l. Plans	Total	U.S. Plans	Int'l. Plans
	-----	-----	-----	-----	-----	-----
Service cost	\$ 3.0	\$ -	\$ 3.0	\$ 4.1	\$ -	\$ 4.1
Interest cost	101.8	71.2	30.6	105.1	71.0	34.1
Expected return on plan assets	(129.6)	(96.1)	(33.5)	(142.0)	(101.8)	(40.2)
Amortization of prior service cost	.1	.2	(.1)	.1	.1	-
Recognized net actuarial loss	19.5	18.6	.9	17.7	14.4	3.3
	-----	-----	-----	-----	-----	-----
Net periodic pension (income) expense	\$ (5.2)	\$ (6.1)	\$.9	\$ (15.0)	\$ (16.3)	\$ 1.3
	=====	=====	=====	=====	=====	=====
	Nine Months Ended Sept. 30, 2009			Nine Months Ended Sept. 30, 2008		
	Total	U.S. Plans	Int'l. Plans	Total	U.S. Plans	Int'l. Plans
	-----	-----	-----	-----	-----	-----
Service cost	\$ 8.6	\$ -	\$ 8.6	\$ 20.3	\$ -	\$ 20.3
Interest cost	298.2	213.7	84.5	316.0	212.9	103.1

Edgar Filing: UNISYS CORP - Form 10-Q

Expected return on plan assets	(383.2)	(288.5)	(94.7)	(427.3)	(305.5)	(121.8)
Amortization of prior service cost	.6	.6	-	.6	.5	.1
Recognized net actuarial loss	58.8	55.7	3.1	53.6	43.1	10.5
Curtailment loss	-	-	-	1.5	-	1.5
	-----	-----	-----	-----	-----	-----
Net periodic pension (income) expense	\$ (17.0)	\$ (18.5)	\$ 1.5	\$ (35.3)	\$ (49.0)	\$ 13.7
	=====	=====	=====	=====	=====	=====

The company currently expects to make cash contributions of approximately \$100-\$105 million to its worldwide defined benefit pension plans in 2009 compared with \$78.1 million in 2008. For the nine months ended September 30, 2009 and 2008, \$55.8 million and \$57.7 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 2009.

The expense related to the company's match to the U.S. 401(k) plan for the nine months ended September 30, 2009 and 2008 was zero and \$38.0 million, respectively. Effective January 1, 2009, the company match was suspended.

Net periodic postretirement benefit expense for the three and nine months ended September 30, 2009 and 2008 is presented below (in millions of dollars):

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2009	2008	2009	2008
	-----	-----	-----	-----
Service cost	\$ -	\$.1	\$.2	\$.5
Interest cost	3.0	3.1	8.9	9.6
Expected return on assets	(.1)	(.2)	(.3)	(.4)
Amortization of prior service cost	.4	.3	1.1	1.5
Recognized net actuarial loss	.9	1.2	2.6	3.4
	-----	-----	-----	-----
Net periodic postretirement benefit expense	\$4.2	\$4.5	\$12.5	\$14.6
	=====	=====	=====	=====

The company expects to make cash contributions of approximately \$23 million to its postretirement benefit plan in 2009 compared with \$19.5 million in 2008. For the nine months ended September 30, 2009 and 2008, \$16.2 million and \$11.9 million, respectively, of cash contributions have been made.

8

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, 2009, the fair value of such contracts was a net loss of \$.3 million, of which \$5.4 million has been recognized in "Prepaid expenses and other current assets" and \$5.7 million has been recognized in "Other accrued liabilities". Changes in the fair value of these instruments was a loss of \$.8 million and \$.5 million for the three months and nine months ended September 30, 2009, respectively, which has been recognized in earnings in "Other income (expense), net" in the

Edgar Filing: UNISYS CORP - Form 10-Q

company's consolidated statement of income.

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, 2009, 1.5 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,	
	2009	2008
Weighted-average fair value of grant	\$2.81	\$16.19
Risk-free interest rate	1.57%	3.63%
Expected volatility	58.28%	45.28%
Expected life of options in years	3.77	3.67
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, 2009 and 2008, the company recorded \$.3 million of income and \$.2 million of income for share-based compensation, respectively, which is comprised of \$2.0 million and \$.7 million of restricted stock unit income and \$1.7 million and \$.5 million of stock option expense, respectively. During the three months ended September 30, 2009 and 2008, the company reversed \$2.4 million and \$13.2 million, respectively, of previously-accrued compensation expense related to performance-based restricted stock units due to a change in the assessment of the achievability of the performance goals. In addition, during the three months ended September 30, 2009, the company reversed \$2.6 million of previously-accrued share-based compensation principally related to employees terminated in prior periods.

9

A summary of stock option activity for the nine months ended September 30, 2009 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, 2008	3,414	\$163.78		
Granted	1,159	6.40		
Forfeited and expired	(505)	234.63		

Edgar Filing: UNISYS CORP - Form 10-Q

Outstanding at	-----			
Sept. 30, 2009	4,068	110.46	2.47	\$23.8
	=====			
Expected to vest at				
Sept. 30, 2009	1,198	8.18	4.33	22.5
	=====			
Exercisable at				
Sept. 30, 2009	2,807	156.45	1.63	-
	=====			

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, 2009. 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, 2009 and for the nine months ended September 30, 2008 was zero since no options were exercised. As of September 30, 2009, \$2.5 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 2.2 years.

A summary of restricted stock unit activity for the nine months ended September 30, 2009 follows (shares in thousands):

	Restricted Stock Units	Weighted- Average Grant Date Fair Value
	-----	-----
Outstanding at December 31, 2008	763	\$50.66
Granted	166	6.37
Vested	(57)	53.25
Forfeited and expired	(289)	45.34

Outstanding at Sept. 30, 2009	583	40.45
	===	

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, 2009 and 2008 was \$1.1 million and \$27.8 million, respectively. As of September 30, 2009, there was \$3.2 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 1.5 years. The aggregate weighted-average grant date fair value of restricted share units vested during the nine months ended September 30, 2009 and 2008 was \$3.0 million and \$1.7 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, 2009 and 2008 was zero. In light of its tax position, 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. Tax benefits resulting from tax deductions in excess of the compensation costs recognized are classified as financing cash flows.

Edgar Filing: UNISYS CORP - Form 10-Q

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 servers and specialized technologies.

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, 2009 and 2008 was \$1.5 million and \$21.9 million, respectively. The amount for the nine months ended September 30, 2009 and 2008 was \$12.0 million and \$33.1 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. 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, 2009 and 2008 is presented below (in millions of dollars):

	Total -----	Corporate -----	Services -----	Technology -----
Three Months Ended September 30, 2009 -----				
Customer revenue	\$1,159.6		\$1,006.0	\$ 153.6
Intersegment	-	\$ (33.2)	1.7	31.5
	-----	-----	-----	-----
Total revenue	\$1,159.6	\$ (33.2)	\$1,007.7	\$ 185.1
	=====	=====	=====	=====
Operating income	\$ 118.0	\$ 1.1	\$ 77.7	\$ 39.2
	=====	=====	=====	=====
Three Months Ended September 30, 2008 -----				
Customer revenue	\$1,312.4		\$1,152.1	\$ 160.3
Intersegment	-	\$ (67.5)	4.0	63.5
	-----	-----	-----	-----
Total revenue	\$1,312.4	\$ (67.5)	\$1,156.1	\$ 223.8
	=====	=====	=====	=====
Operating income (loss)	\$ 37.9	\$ (22.3)	\$ 35.6	\$ 24.6
	=====	=====	=====	=====
Nine Months Ended September 30, 2009				

Edgar Filing: UNISYS CORP - Form 10-Q

Customer revenue	\$3,388.2		\$3,019.8	\$ 368.4
Intersegment	-	\$ (118.4)	5.0	113.4
	-----	-----	-----	-----
Total revenue	\$3,388.2	\$ (118.4)	\$3,024.8	\$ 481.8
	=====	=====	=====	=====
Operating income	\$ 215.4	\$ 16.0	\$ 185.8	\$ 13.6
	=====	=====	=====	=====
Nine Months Ended				
September 30, 2008				

Customer revenue	\$3,953.7		\$3,486.2	\$ 467.5
Intersegment	-	\$ (162.2)	9.4	152.8
	-----	-----	-----	-----
Total revenue	\$3,953.7	\$ (162.2)	\$3,495.6	\$ 620.3
	=====	=====	=====	=====
Operating income (loss)	\$ 88.5	\$ (32.2)	\$ 101.4	\$ 19.3
	=====	=====	=====	=====

11

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	
	2009	2008	2009	2008
	-----	-----	-----	-----
Total segment operating income	\$ 116.9	\$ 60.2	\$ 199.4	\$ 120.7
Interest expense	(25.4)	(21.5)	(68.4)	(64.3)
Other income (expense), net	(3.3)	(.9)	(7.0)	(8.4)
Corporate and eliminations	1.1	(22.3)	16.0	(32.2)
	-----	-----	-----	-----
Total income before income taxes	\$ 89.3	\$ 15.5	\$ 140.0	\$ 15.8
	=====	=====	=====	=====

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	
	2009	2008	2009	2008
	-----	-----	-----	-----
Services				
Systems integration and consulting	\$ 327.3	\$ 361.2	\$1,018.5	\$1,094.7
Outsourcing	464.5	515.0	1,347.8	1,529.7
Infrastructure services	133.7	182.1	419.7	575.7
Core maintenance	80.5	93.8	233.8	286.1
	-----	-----	-----	-----
	1,006.0	1,152.1	3,019.8	3,486.2
Technology				
Enterprise-class servers	138.8	141.3	295.5	384.7
Specialized technologies	14.8	19.0	72.9	82.8
	-----	-----	-----	-----
	153.6	160.3	368.4	467.5
	-----	-----	-----	-----
Total	\$1,159.6	\$1,312.4	\$3,388.2	\$3,953.7

Edgar Filing: UNISYS CORP - Form 10-Q

===== ===== ===== =====

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	
	2009	2008	2009	2008
	-----	-----	-----	-----
United States	\$ 541.4	\$ 559.8	\$1,622.0	\$1,668.5
United Kingdom	139.5	182.9	405.9	592.5
Other international	478.7	569.7	1,360.3	1,692.7
	-----	-----	-----	-----
Total	\$1,159.6	\$1,312.4	\$3,388.2	\$3,953.7
	=====	=====	=====	=====

12

h. Comprehensive income (loss) for the three and nine months ended September 30, 2009 and 2008 includes the following components (in millions of dollars):

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2009	2008	2009	2008
	-----	-----	-----	-----
Consolidated net income (loss)	\$ 63.1	\$ (29.6)	\$ 81.6	\$ (56.7)
	-----	-----	-----	-----
Other comprehensive income (loss)				
Cash flow hedges				
Gain	-	1.6	-	1.0
Reclassification adjustments	-	(.4)	-	.1
Foreign currency translation adjustments	22.8	(37.0)	68.5	(37.3)
Postretirement adjustments	25.1	56.6	35.3	82.0
	-----	-----	-----	-----
Total other comprehensive income	47.9	20.8	103.8	45.8
	-----	-----	-----	-----
Consolidated comprehensive income (loss)	111.0	(8.8)	185.4	(10.9)
Comprehensive income attributable to noncontrolling interests	1.6	2.0	9.9	11.5
	-----	-----	-----	-----
Comprehensive income (loss) attributable to Unisys Corporation	\$ 112.6	\$ (6.8)	\$ 195.3	\$.6
	=====	=====	=====	=====

Accumulated other comprehensive loss as of December 31, 2008 and September 30, 2009 is as follows (in millions of dollars):

	Total	Translation Adjustments	Post- retirement Plans
	-----	-----	-----
Balance at December 31, 2008	\$(2,904.6)	\$(701.5)	\$(2,203.1)
Change during period	100.7	64.0	36.7
	-----	-----	-----
Balance at September 30, 2009	\$(2,803.9)	\$(637.5)	\$(2,166.4)
	=====	=====	=====

Edgar Filing: UNISYS CORP - Form 10-Q

Noncontrolling interests as of December 31, 2008 and September 30, 2009 is as follows (in millions of dollars):

	Non- Controlling Interests
Balance at December 31, 2008	\$ 18.6
Net income	6.8
Translation adjustments	4.5
Postretirement plans	(1.4)

Balance at September 30, 2009	\$ 28.5
	=====

i. For equipment manufactured by the company, the company warrants that it will substantially conform to relevant published specifications for 12 months after shipment to the customer. The company will repair or replace, at its option and expense, items of equipment that do not meet this warranty. For company software, the company warrants that it will conform substantially to then-current published functional specifications for 90 days from customer's receipt. The company will provide a workaround or correction for material errors in its software that prevents its use in a production environment.

The company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time revenue is recognized. Factors that affect the company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims and cost per claim. The company assesses quarterly the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

13

Presented below is a reconciliation of the aggregate product warranty liability (in millions of dollars):

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2009	2008	2009	2008
Balance at beginning of period	\$ 4.6	\$ 5.1	\$ 5.2	\$ 6.9
Accruals for warranties issued during the period	.6	.6	1.7	2.0
Settlements made during the period	(.7)	(.6)	(2.1)	(2.0)
Changes in liability for pre-existing warranties during the period, including expirations	(.4)	(.2)	(.7)	(2.0)
Balance at September 30	\$ 4.1	\$ 4.9	\$ 4.1	\$ 4.9
	=====	=====	=====	=====

j. Cash paid during the nine months ended September 30, 2009 and 2008 for income tax was \$45.4 million and \$43.6 million, respectively.

Edgar Filing: UNISYS CORP - Form 10-Q

Cash paid during the nine months ended September 30, 2009 and 2008 for interest was \$83.5 million and \$64.4 million, respectively.

k. Effective September 30, 2009, the company adopted Accounting Standards Update No. 2009-01, "Statement of Financial Accounting Standards No. 168 - The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles," (ASU 2009-01). ASU 2009-01 is not expected to change U.S. generally accepted accounting principles but combines all nongovernmental authoritative standards into a comprehensive, topically organized online database. All other accounting literature excluded from ASU 2009-01 will be considered nonauthoritative. All references to authoritative accounting literature have been made in accordance with ASU 2009-01.

Effective July 1, 2009, the company adopted Accounting Standards Update No. 2009-05, "Measuring Liabilities at Fair Value," (ASU 2009-05). ASU 2009-05 provides additional guidance clarifying the measurement of liabilities at fair value that are within the scope of Accounting Standards Codification (ASC) 820 and addresses several key issues with respect to estimating the fair value of liabilities in accordance with ASC 820. Among other things, the guidance clarifies how the price of a traded debt security should be considered in estimating the fair value of the issuer's liability. Adoption of ASU 2009-05 did not have an impact on the company's consolidated results of operations and financial position.

Effective January 1, 2009, the company adopted ASC 805-10 related to business combinations, which established principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. ASC 805-10 applies to business combinations for which the acquisition date is on or after January 1, 2009.

Effective January 1, 2009, the company adopted ASC 810-10, which describes a noncontrolling interest, sometimes called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. ASC 810-10 establishes accounting and reporting standards that require, among other items: (a) the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; (b) the amount of consolidated net income (loss) attributable to the parent and the noncontrolling interests be clearly identified and presented on the face of the consolidated statement of income; and (c) entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. As required by ASC 810-10, the presentation and disclosure requirements have been applied retrospectively for all periods presented. See note (n).

14

Effective January 1, 2009, the company adopted ASC 815-10, which requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. See note (e).

Effective June 30, 2009, the company adopted ASC 855-10, which establishes general standards of accounting for and disclosure of events that occur after

Edgar Filing: UNISYS CORP - Form 10-Q

the balance sheet date but before the date the financial statements are issued or available to be issued. ASC 855-10 requires companies to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance-sheet date. Subsequent events that provide evidence about conditions that arose after the balance-sheet date should be disclosed if the financial statements would otherwise be misleading. Disclosures should include the nature of the event and either an estimate of its financial effect or a statement that an estimate cannot be made. See note (p).

Effective June 30, 2009, the company adopted ASC 825-10, which requires an entity to provide disclosures about fair value of financial instruments in interim financial statements. See note (q).

In December 2008, the FASB issued ASC 715-20, which provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. Specifically, employers will be required to disclose information about how investment allocation decisions are made, the fair value of each major category of plan assets and information about the inputs and valuation techniques used to develop the fair value measurements of plan assets. The disclosures about plan assets required by ASC 715-20 shall be provided for fiscal years ending after December 15, 2009, which is December 31, 2009 for the company.

In June 2009, the FASB issued ASC 860-10, which among other changes, eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, defines the term participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale and requires additional disclosures. ASC 860-10 is effective as of the beginning of a reporting entity's first annual reporting period that begins after November 15, 2009 (which for the company is January 1, 2010), for interim periods within the first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The recognition and measurement provisions are effective for transfers occurring on or after the effective date. Based on an initial review, the company believes that its current U.S. trade accounts receivable facility will no longer meet the requirements to be treated as a sale of receivables, and that it will be accounted for as a secured borrowing with pledge of collateral.

In June 2009, the FASB issued ASC 860-10, which changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. ASC 860-10 is effective as of the beginning of a reporting entity's first annual reporting period that begins after November 15, 2009 (which for the company is January 1, 2010), for interim periods within the first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The company is currently assessing the impact of the adoption of ASC 860-10 on its consolidated results of operations, financial position and cash flows.

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, "Multiple-Deliverable Revenue Arrangements," (ASU 2009-13) and Accounting Standards Update No. 2009-14, "Certain Revenue Arrangements That Include Software Elements," (ASU 2009-14). ASU 2009-13 supersedes certain prior accounting guidance and requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices (i.e., the relative-selling-price method). ASU 2009-13 eliminates the use of the residual method of allocation

Edgar Filing: UNISYS CORP - Form 10-Q

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 ASU. ASU 2009-14 supersedes prior software revenue recognition accounting guidance by excluding from the scope of such prior guidance tangible products that contain software elements and non-software elements that function together to deliver the tangible product's essential functionality. Both of these Accounting Standards Updates must be adopted at the same time and both will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 30, 2010, which

15

for the company is January 1, 2011. Early adoption is permitted. If an entity elects early adoption and the period of adoption is not the beginning of the entity's fiscal year, the entity is required to apply the amendments retrospectively from the beginning of the entity's fiscal year. An entity may elect, but is not required, to adopt these amendments retrospectively to prior periods. The company is currently assessing when it will adopt and is evaluating the impact of the adoption of these Accounting Standards Updates on its consolidated results of operations and financial position; however, the company expects, as indicated in ASU 2009-14, that the application of the amended guidance will result in revenue being recognized earlier than had been required under the superseded guidance.

1. 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 and intellectual property. 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 affected in any particular period by the resolution of one or more of the legal matters pending against it.

In 2002, the company and the Transportation Security Administration (TSA) entered into a competitively awarded contract providing 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 the Civil Division. The company does not know whether the Civil Division will pursue these matters, or, if pursued, what effect they might have on the company.

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 are reviewing the company's compliance with the disclosure and pricing provisions under two of these contracts, and whether the company has potentially overcharged the government under the contracts. Separately, the company has made voluntary disclosures about these matters to the responsible GSA contracting officers. The company is providing

Edgar Filing: UNISYS CORP - Form 10-Q

pricing and other information to the GSA auditors and is working cooperatively with them. As the audit is on-going, 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. The company believes it has valid defenses to the claims and contends that the Belgian State's termination of the contract was unjustified. Unisys Belgium has filed its defense and counterclaim in the amount of approximately 18.5 million euros. The litigation is proceeding.

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.

16

In July 2008, Lufthansa Systems Passenger Services GmbH sued Unisys Germany in the District Court of Frankfurt, Germany, in connection with a 2005 agreement under which Unisys Germany was to develop passenger management software for Lufthansa Systems. Lufthansa Systems purported to terminate the agreement for cause in July 2007 claiming that Unisys Germany failed to deliver satisfactory software in a timely manner. The lawsuit sought a monetary recovery of approximately 49 million euros. The company filed its defense and a counterclaim in the amount of approximately 8.6 million euros. In August 2009, the district court dismissed all of Lufthansa Systems's claims except a claim for 1.9 million euros for delay of the project and entered judgment against Unisys Germany for this amount, plus interest and a small portion of Lufthansa Systems's attorneys' fees. Having dismissed Lufthansa Systems's claims, the court did not rule on the Unisys Germany counterclaim. Both parties have appealed the decision.

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, 2009, 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. In addition, 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 quarterly 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

Edgar Filing: UNISYS CORP - Form 10-Q

realization are the company's 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.

In 2005, based upon the level of historical taxable income and projections of future taxable income over the periods during which the deferred tax assets are deductible, management concluded that it is more likely than not that the U.S. and certain foreign deferred tax assets in excess of deferred tax liabilities would not be realized. A full valuation allowance was recognized in 2005 and 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 deferred tax assets. Any profit or loss recorded for the company's U.S. operations will have no provision or benefit associated with it. As a result, the company's provision or benefit for taxes will vary significantly depending on the geographic distribution of income.

n. Certain prior year amounts have been reclassified due to the adoption of ASC 810-10, see note (k). As a result of the adoption, the following retroactive adjustment was made: the December 31, 2008 noncontrolling interests' balance of \$30.5 million, previously presented in other long-term liabilities, has been presented as part of stockholders' deficit. Also, in connection with the adoption, the December 31, 2008 noncontrolling interests portion of the postretirement plans of \$11.9 million, which had previously been included in Accumulated Other Comprehensive Income, has been reported as a reduction in the noncontrolling interests included in stockholders' deficit.

o. On July 31, 2009, the company completed offers to exchange its 6 7/8% senior notes due 2010 (the 2010 Notes), its 8% senior notes due 2012 (the 2012 Notes), its 8 1/2% senior notes due 2015 (the 2015 Notes) and its 12 1/2% senior notes due 2016 (the 2016 Notes) in private placements for new 12 3/4% senior secured notes due 2014 (the First Lien Notes), new 14 1/4% senior secured notes due 2015 (the Second Lien Notes and, together with First Lien Notes, the New Secured Notes), shares of the company's common stock and cash. On that date, the company issued approximately \$385.0 million aggregate principal amount of First Lien Notes, approximately \$246.6 million aggregate principal amount of Second Lien Notes and approximately 5.2 million shares of common stock and paid \$30.0 million in cash in exchange for approximately \$235.1 million aggregate principal amount of 2010 Notes, approximately \$331.9 million aggregate principal amount of 2012 Notes, approximately \$134.0 million aggregate principal amount of 2015 Notes, and approximately \$59.4 million aggregate principal amount of 2016 Notes. The New Secured Notes are guaranteed by Unisys Holding Corporation, a wholly-owned Delaware corporation that directly or indirectly holds the shares of substantially all of the company's foreign subsidiaries, and by certain of the company's other current and future U.S. subsidiaries. The First Lien Notes and Second Lien Notes are secured by first-priority liens and second priority liens, respectively, (in each case, subject to permitted prior liens) by substantially all of the company's assets, except (i) accounts receivable that are subject to one or more receivables facilities, (ii) real estate located outside the U.S., (iii) cash or cash equivalents securing reimbursement obligations under letters of credit or surety bonds and (iv) certain other excluded assets. The company recognized a net gain of \$.5 million on the exchange in "Other income (expense), net" in the quarter ended September 30, 2009. As a result of the exchange, annual interest expense will increase by approximately \$23 million.

17

p. The company has evaluated subsequent events (events occurring after September 30, 2009) for recognition or disclosure in these financial statements up to October 30, 2009.

Edgar Filing: UNISYS CORP - Form 10-Q

q. 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, 2009, the carrying amount of long-term debt, including current maturities, approximated fair value.

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

The earnings per share amounts below reflect the company's previously announced reverse stock split applied on a retroactive basis (see note (a) of the Notes to Consolidated Financial Statements).

The company reported significantly improved profitability and cash flow for the first nine months of 2009 as the company's results benefited from ongoing actions to concentrate its resources more effectively and reduce its cost base, despite a decline in revenue.

Revenue in the first nine months of 2009 compared with the year-ago period was impacted by weakness in global economic conditions as well as unfavorable foreign currency translation. The company reported revenue of \$3.39 billion in the nine months ended September 30, 2009, down 14% compared with revenue of \$3.95 billion in the nine months ended September 30, 2008. Foreign currency exchange rates had an approximately 7-percentage-point negative impact on revenue in the first nine months of 2009. On a constant currency basis, revenue declined 7% in the first nine months of 2009 compared to the prior-year period.

For the nine months ended September 30, 2009, operating income increased to \$215.4 million compared with \$88.5 million in the first nine months of 2008. Operating profit percent increased to 6.4% for the first nine months of 2009 compared with 2.2% in the year-ago period. After a tax provision of \$58.4 million, the company reported net income attributable to Unisys Corporation of \$74.8 million, or \$1.93 per diluted share, for the first nine months of 2009. This compared with a year-ago net loss attributable to Unisys Corporation of \$72.1 million, or a loss of \$2.01 per diluted share, which included a tax provision of \$72.5 million.

Cash from operating activities increased to \$181.8 million in the first nine months of 2009 compared with \$116.4 million in the same period of 2008.

Results of operations

Company results

Revenue for the quarter ended September 30, 2009 was \$1.16 billion compared with \$1.31 billion for the third quarter of 2008, a decrease of 12% from the prior year. Foreign currency fluctuations had a 5-percentage-point negative impact on revenue in the third quarter compared with the year-ago period. Services revenue declined 13% and Technology revenue declined 4% in the third quarter compared with the year-ago period. U.S. revenue was down 3% in the third quarter compared with the year-ago period, as growth in U.S. Federal government revenue was offset by declines in commercial revenue. International revenue decreased 18% (11% on a constant currency basis) in the three months ended September 30, 2009 due to declines in all major regions.

Total gross profit margin was 26.4% in the three months ended September 30, 2009 compared with 22.2% in the three months ended September 30, 2008. The increase in gross profit margin reflects improved cost efficiencies in services delivery, the benefits from operating expense reductions as well as a stronger mix of high-end enterprise server sales.

Selling, general and administrative expense in the three months ended September 30, 2009 was \$163.5 million (14.1% of revenue) compared with \$218.4 million (16.6% of revenue) in the year-ago period. The decrease in selling, general and administrative expense reflects the benefits from cost reduction actions as well as foreign currency exchange fluctuations. During the three months ended September 30, 2009 and 2008, the company reversed \$2.4 million and \$13.2 million, respectively, of previously-accrued compensation expense related to performance-based restricted stock units due to a change in the assessment of the achievability of the performance goals. In addition, during the three months ended September 30, 2009, the company reversed \$2.6 million of previously-accrued share-based compensation principally related to employees terminated in prior periods (see note (f)).

Research and development (R&D) expenses in the third quarter of 2009 were \$24.3 million compared with \$35.7 million in the third quarter of 2008. The decrease in R&D expenses in 2009 compared with 2008 principally reflects changes in the company's development model as the company has focused its investments on software development versus hardware design.

For the third quarter of 2009, the company reported operating income of \$118.0 million compared with operating income of \$37.9 million in the third quarter of 2008.

For the three months ended September 30, 2009, pension income was \$5.2 million compared with pension income of \$15.0 million for the three months ended September 30, 2008. The expense related to the company's match to the U.S. 401(k) plan for the three months ended September 30, 2009 and 2008 was zero and \$11.3 million, respectively. Effective January 1, 2009, the company match was suspended. The company records pension income or expense, as well as other employee-related costs such as 401(k) match, 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.

Due to changes in estimates related to cost reduction charges, during the three months ended September 30, 2009, \$4.7 million was recorded as expense compared with \$2.0 million recorded as expense in the year-ago period.

Interest expense for the three months ended September 30, 2009 was \$25.4 million compared with \$21.5 million for the three months ended September 30, 2008. The increase was principally due to higher interest rates associated with the debt issued in connection with the debt exchange discussed below.

Other income (expense), net was an expense of \$3.3 million in the third quarter of 2009, compared with expense of \$.9 million in 2008, principally due to a loss of \$4.7 million on the sale of a subsidiary in the third quarter of 2009.

The company reported income before income taxes for the three months ended September 30, 2009 of \$89.3 million compared with income before taxes of \$15.5 million in 2008. The provision for income taxes was \$26.2 million in the third quarter compared with a provision of \$45.1 million in the year-ago period.

Edgar Filing: UNISYS CORP - Form 10-Q

Included in the tax provision for the three months ended September 30, 2009 was a benefit related to a prior period adjustment of \$4.4 million. Included in the tax provision for the three months ended September 30, 2008 was a provision of \$7.8 million for the understatement of the income tax provision for the first and second quarters of 2008. This charge had no effect on the 2008 year to date provision for income taxes.

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 deferred tax assets. Any profit or loss recorded for the company's U.S. operations will have no provision or benefit associated with it. As a result, the company's provision or benefit for taxes will vary significantly quarter to quarter depending on the geographic distribution of income.

19

The net income attributable to Unisys Corporation for the three months ended September 30, 2009 was \$61.1 million, or \$1.48 per diluted share, compared with a net loss attributable to Unisys Corporation of \$34.7 million, or a loss of \$.96 per diluted share, for the three months ended September 30, 2008.

Revenue for the nine months ended September 30, 2009 was \$3.39 billion compared with \$3.95 billion for the nine months ended September 30, 2008, a decrease of 14% from the prior year. Foreign currency fluctuations had a 7-percentage-point negative impact on revenue in the current period compared with the year-ago period. Services revenue declined 13% and Technology revenue declined 21% for the nine months ended September 30, 2009 compared with the year-ago period. U.S. revenue was down 3% in the first nine months of 2009 compared with the year-ago period, as growth in U.S. Federal government revenue was offset by declines in commercial revenue. International revenue decreased 23% (10% on a constant currency basis) in the first nine months of 2009 due to declines in all major regions.

Total gross profit margin was 23.6% in the nine months ended September 30, 2009 compared with 22.5% in the nine months ended September 30, 2008. The increase in gross profit margin reflects the benefits from cost reduction actions.

Selling, general and administrative expense in the nine months ended September 30, 2009 was \$506.3 million (14.9% of revenue) compared with \$701.9 million (17.8% of revenue) in the year-ago period. The decrease in selling, general and administrative expense reflects the benefits from cost reduction actions as well as foreign currency exchange fluctuations. During the nine months ended September 30, 2009 and 2008, the company reversed \$2.4 million and \$13.2 million, respectively, of previously-accrued compensation expense related to performance-based restricted stock units due to a change in the assessment of the achievability of the performance goals. In addition, during the nine months ended September 30, 2009, the company reversed \$2.6 million of previously-accrued share-based compensation principally related to employees terminated in prior periods (see note (f)).

R&D expenses in the first nine months of 2009 were \$76.8 million compared with \$98.6 million in the first nine months of 2008. The decrease in R&D expenses in 2009 compared with 2008 principally reflects changes in the company's development model as the company has focused its investments on software development versus hardware design.

For the nine months ended September 30, 2009, the company reported operating income of \$215.4 million compared with operating income of \$88.5 million for

Edgar Filing: UNISYS CORP - Form 10-Q

the nine months ended September 30, 2008.

For the nine months ended September 30, 2009, pension income was \$17.0 million compared with pension income of \$35.3 million for the nine months ended September 30, 2008. The decrease in pension income in 2009 from 2008 was principally due to lower returns on plan assets worldwide. The expense related to the company's match to the U.S. 401(k) plan for the nine months ended September 30, 2009 and 2008 was zero and \$38.0 million, respectively.

Due to changes in estimates related to cost reduction charges, during the nine months ended September 30, 2009, \$4.7 million was recorded as income compared with \$1.2 million recorded as expense in the year-ago period. In addition, during the nine months ended September 30, 2009, the company recorded a benefit of \$11.2 million (a \$5.4 million benefit in other income, a \$6.1 million benefit in cost of revenue and an expense of \$.3 million in selling, general and administrative expense related to legal fees) relating to a change in Brazilian law involving a gross receipt tax.

Interest expense for the nine months ended September 30, 2009 was \$68.4 million compared with \$64.3 million for the nine months ended September 30, 2008. The increase was principally due to higher interest rates associated with the debt issued in connection with the debt exchange discussed below.

Other income (expense), net was an expense of \$7.0 million for the nine months ended September 30, 2009, compared with expense of \$8.4 million for the nine months ended September 30, 2008. The nine months ended September 30, 2009 includes income of \$5.4 million related to the Brazilian law change discussed above, a loss of \$4.7 million on the sale of a subsidiary and foreign exchange losses of \$6.1 million. Included in the nine months ended September 30, 2008 were foreign exchange losses of \$.8 million.

20

The company reported income before income taxes for the nine months ended September 30, 2009 of \$140.0 million compared with income of \$15.8 million in 2008. The provision for income taxes was \$58.4 million in the first nine months of 2009 compared with a provision of \$72.5 million in the year-ago period. Included in the tax provision for the nine months ended September 30, 2009 was a U.S. refundable credit of \$8.3 million, a foreign tax refund of \$2.7 million related to a 2008 refund claim and a benefit related to a prior period adjustment of \$5.0 million. Included in the tax provision for the nine months ended September 30, 2008 was a \$5.1 million benefit related to prior years' intercompany royalties and a U.S. refundable credit of \$4.1 million.

The net income attributable to Unisys Corporation for the nine months ended September 30, 2009 was \$74.8 million, or \$1.93 per diluted share, compared with a net loss attributable to Unisys Corporation of \$72.1 million, or a loss of \$2.01 per diluted share, for the nine months ended September 30, 2008.

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 servers and specialized technologies. 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 profit on such

Edgar Filing: UNISYS CORP - Form 10-Q

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, 2009 and 2008 was \$1.5 million and \$21.9 million, respectively. The amount for the nine months ended September 30, 2009 and 2008 was \$12.0 million and \$33.1 million, respectively. The profit on these transactions is eliminated in Corporate.

The company evaluates business segment performance on operating profit exclusive of cost reduction 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.

Information by business segment for the three months ended September 30, 2009 and 2008 is presented below (in millions of dollars):

	Total -----	Elimi- nations -----	Services -----	Technology -----
Three Months Ended September 30, 2009 -----				
Customer revenue	\$1,159.6		\$1,006.0	\$ 153.6
Intersegment	-	\$ (33.2)	1.7	31.5
	-----	-----	-----	-----
Total revenue	\$1,159.6	\$ (33.2)	\$1,007.7	\$ 185.1
	=====	=====	=====	=====
Gross profit percent	26.4%		19.7%	55.2%
	=====		=====	=====
Operating income percent	10.2%		7.7%	21.2%
	=====		=====	=====
Three Months Ended September 30, 2008 -----				
Customer revenue	\$1,312.4		\$1,152.1	\$ 160.3
Intersegment	-	\$ (67.5)	4.0	63.5
	-----	-----	-----	-----
Total revenue	\$1,312.4	\$ (67.5)	\$1,156.1	\$ 223.8
	=====	=====	=====	=====
Gross profit percent	22.2%		17.6%	47.5%
	=====		=====	=====
Operating income percent	2.9%		3.1%	11.0%
	=====		=====	=====

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

21

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

Three Months Ended September 30 -----	Percent
---	---------

Edgar Filing: UNISYS CORP - Form 10-Q

	2009 ----	2008 ----	Change -----
Services			
Systems integration and consulting	\$ 327.3	\$ 361.2	(9.4)%
Outsourcing	464.5	515.0	(9.8)%
Infrastructure services	133.7	182.1	(26.6)%
Core maintenance	80.5	93.8	(14.2)%
	-----	-----	
	1,006.0	1,152.1	(12.7)%
Technology			
Enterprise-class servers	138.8	141.3	(1.8)%
Specialized technologies	14.8	19.0	(22.1)%
	-----	-----	
	153.6	160.3	(4.2)%
	-----	-----	
Total	\$1,159.6	\$1,312.4	(11.6)%
	=====	=====	

In the Services segment, customer revenue was \$1,006.0 million for the three months ended September 30, 2009 down 12.7% from the three months ended September 30, 2008. Services revenue in the third quarter of 2009 when compared with the year-ago period was impacted by continued world wide weak demand and foreign currency exchange rates. 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 9.4% in the three months ended September 30, 2009 compared with the year-ago period, reflecting lower demand for project-based services.

Outsourcing revenue decreased 9.8% in the three months September 30, 2009 compared with the year-ago period, primarily reflecting a decline in business processing outsourcing (BPO) revenue.

Infrastructure services revenue declined 26.6% in the three months ended September 30, 2009 compared with the year-ago period. The decline was due to weakness in demand for network design and consulting projects, as well as the shift of project-based infrastructure work to managed outsourcing contracts.

Core maintenance revenue declined 14.2% in the third quarter compared with the prior-year quarter. The company expects the secular decline of core maintenance to continue.

Services gross profit was 19.7% in the third quarter of 2009 compared with 17.6% in the year-ago period. Services operating income percent was 7.7% in the three months ended September 30, 2009 compared with 3.1% in the three months ended September 30, 2008. Contributing to the increase in Services margins were the benefits from operating expense reductions as well as cost efficiencies in services delivery.

In the Technology segment, customer revenue was \$153.6 million in the September 2009 quarter compared with \$160.3 million in the year-ago period for a decrease of 4.2%. Foreign currency translation had a negative impact of approximately 1-percentage point on Technology revenue in the September 2009 quarter compared with the prior-year period.

Revenue from the company's enterprise-class servers, which includes the company's ClearPath and ES7000 product families, decreased 1.8% for the three months ended September 30, 2009 compared with the three months ended September 30, 2008. Revenue in the current quarter benefited from a number of high-end enterprise server deals that were closed; however, the company expects the

Edgar Filing: UNISYS CORP - Form 10-Q

secular decline in the enterprise-class server market to continue.

Revenue from specialized technologies, which includes third-party technology products and the company's payment systems products, decreased \$4.2 million for the three months ended September 30, 2009 compared with the prior year period, principally due to a decline in the company's payment systems products.

Technology gross profit was 55.2% in the current quarter compared with 47.5% in the year-ago quarter. Technology operating income percent was 21.2% in the three months ended September 30, 2009 compared with 11.0% in the three months ended September 30, 2008. Contributing to the increase in Technology margins was a stronger mix of high-end enterprise server sales as well as the benefits from cost reduction actions.

22

Information by business segment for the nine months ended September 30, 2009 and 2008 is presented below (in millions of dollars):

	Total -----	Elimi- nations -----	Services -----	Technology -----
Nine Months Ended September 30, 2009 -----				
Customer revenue	\$3,388.2		\$3,019.8	\$ 368.4
Intersegment	-	\$(118.4)	5.0	113.4
	-----	-----	-----	-----
Total revenue	\$3,388.2	\$(118.4)	\$3,024.8	\$ 481.8
	=====	=====	=====	=====
Gross profit percent	23.6%		19.0%	43.8%
	=====		=====	=====
Operating income percent	6.4%		6.1%	2.8%
	=====		=====	=====
Nine Months Ended September 30, 2008 -----				
Customer revenue	\$3,953.7		\$3,486.2	\$ 467.5
Intersegment	-	\$(162.2)	9.4	152.8
	-----	-----	-----	-----
Total revenue	\$3,953.7	\$(162.2)	\$3,495.6	\$ 620.3
	=====	=====	=====	=====
Gross profit percent	22.5%		18.4%	43.4%
	=====		=====	=====
Operating income percent	2.2%		2.9%	3.1%
	=====		=====	=====

Gross profit 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 -----
	2009 ----	2008 ----	
Services			
Systems integration and consulting	\$1,018.5	\$1,094.7	(7.0)%
Outsourcing	1,347.8	1,529.7	(11.9)%
Infrastructure services	419.7	575.7	(27.1)%

Edgar Filing: UNISYS CORP - Form 10-Q

Core maintenance	233.8	286.1	(18.3)%
	-----	-----	
	3,019.8	3,486.2	(13.4)%
Technology			
Enterprise-class servers	295.5	384.7	(23.2)%
Specialized technologies	72.9	82.8	(12.0)%
	-----	-----	
	368.4	467.5	(21.2)%
	-----	-----	
Total	\$3,388.2	\$3,953.7	(14.3)%
	=====	=====	

In the Services segment, customer revenue was \$3,019.8 million for the nine months ended September 30, 2009 down 13.4% from the nine months ended September 30, 2008. Services revenue in the first nine months of 2009 when compared with the year-ago period was impacted by continued world wide weak demand and foreign currency exchange rates. Foreign currency translation had an 8-percentage-point negative impact on Services revenue in the first nine months of 2009 compared with the year-ago period.

Revenue from systems integration and consulting decreased 7.0% from \$1,094.7 million for the nine months ended September 30, 2008 to \$1,018.5 million for the nine months ended September 30, 2009.

23

Outsourcing revenue decreased 11.9% for the nine months September 30, 2009 compared with the year-ago period, primarily reflecting a decline in BPO revenue.

Infrastructure services revenue declined 27.1% for the nine months ended September 30, 2009 compared with the year-ago period. The decline was due to weakness in demand for network design and consulting projects, as well as the shift of project-based infrastructure work to managed outsourcing contracts.

Core maintenance revenue declined 18.3% in the nine months ended September 30, 2009 compared with the prior-year period. The company expects the secular decline of core maintenance to continue.

Services gross profit was 19.0% for the nine months ended September 30, 2009 compared with 18.4% in the year-ago period. Services operating income percent was 6.1% for the nine months ended September 30, 2009 compared with 2.9% for the nine months ended September 30, 2008. Contributing to the increase in Services operating profit margin were benefits from cost reduction actions.

In the Technology segment, customer revenue was \$368.4 million in the nine months ended September 30, 2009 compared with \$467.5 million in the year-ago period for a decrease of 21.2%. Foreign currency translation had a negative impact of approximately 4-percentage points on Technology revenue in the first nine months of 2009 compared with the prior-year period. The decline in Technology revenue in 2009 reflects lower sales of high-end mainframe systems, primarily in Europe and Japan, as clients deferred planned purchases in a weak economic environment, as well as the expiration of a royalty from Nihon Unisys Limited (NUL). The company had recognized revenue of \$18.8 million per quarter (\$8.5 million in enterprise-class servers and \$10.3 million in specialized technologies) under this royalty agreement over the three-year period ended March 31, 2008. The expiration of this royalty from NUL contributed about 4 percentage points of the technology segment's 21% decline in revenue.

Revenue from the company's enterprise-class servers, which includes the

Edgar Filing: UNISYS CORP - Form 10-Q

company's ClearPath and ES7000 product families, decreased 23.2% for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008. Technology sales during the period slowed as clients tightened spending on information technology projects due to economic concerns. Also contributing to the decrease in revenue was the secular decline in the enterprise-class server market, which the company expects to continue.

Revenue from specialized technologies, which includes third-party technology products and the company's payment systems products, decreased 12.0% for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008.

Technology gross profit was 43.8% in the first nine months of 2009 compared with 43.4% in the year-ago period. Technology operating income percent was 2.8% for the nine months ended September 30, 2009 compared with 3.1% for the nine months ended September 30, 2008.

New accounting pronouncements

See note (k) 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

Cash and cash equivalents at September 30, 2009 were \$473.6 million compared with \$544.0 million at December 31, 2008.

The company's principal sources of liquidity are cash on hand, cash from operations and its U.S. trade accounts receivable facility, which is discussed below. The company's revolving credit facility, which provided for loans and letters of credit up to an aggregate of \$275 million, expired on May 31, 2009. As discussed below, on July 31, 2009 the company closed private offers to exchange its outstanding senior notes, for new senior secured notes due in 2014, new senior secured notes due in 2015, common stock and \$30 million of cash. The company also utilizes surety bonds, letters of credit, foreign exchange derivatives and other financial instruments to conduct its business.

The company's anticipated future cash expenditures include contributions to its defined benefit pension plans and payments in respect of cost-reduction actions. In addition to actions to reduce its cost structure, the company will continue to focus on working capital management and to tightly manage capital expenditures. Given these actions and its cash on hand at September 30, 2009, the company believes that it will have adequate sources of liquidity to meet its expected near-term cash requirements.

24

During the nine months ended September 30, 2009, cash provided by operations was \$181.8 million compared with cash provided of \$116.4 million for the nine months ended September 30, 2008. Cash expenditures for the nine months ended September 30, 2009 related to cost-reduction actions (which are included in operating activities) were approximately \$56.2 million compared with \$49.0 million for the prior-year period. Cash expenditures for prior year cost-reduction actions are expected to be approximately \$12.0 million for the remainder of 2009, resulting in an expected cash expenditure of approximately \$68.2 million in 2009 compared with \$60.4 million in 2008.

Cash used for investing activities for the nine months ended September 30, 2009 was \$231.7 million compared with cash usage of \$226.4 million during the nine

Edgar Filing: UNISYS CORP - Form 10-Q

months ended September 30, 2008. Items affecting cash used for investing activities were the following: Net proceeds from investments were \$1.9 million for the nine months ended September 30, 2009 compared with net purchases of \$9.8 million in the prior-year period. Proceeds from investments and purchases of investments represent derivative financial instruments used to manage the company's currency exposure to market risks from changes in foreign currency exchange rates. The amount of proceeds and purchases of investments has declined significantly from last year, principally reflecting the fact that in the fourth quarter of 2008, the company capitalized certain intercompany balances for foreign subsidiaries which reduced the need for these derivatives. During the nine months ended September 30, 2009, the company used \$82.5 million of cash to collateralize letters of credit. In addition, in the current nine month period, the investment in marketable software was \$43.7 million compared with \$65.9 million in the year-ago period, capital additions of properties were \$32.1 million in 2009 compared with \$51.8 million in 2008 and capital additions of outsourcing assets were \$73.4 million in 2009 compared with \$96.6 million in 2008.

Cash used for financing activities during the nine months ended September 30, 2009 was \$45.4 million compared with \$200.9 million of cash used during the nine months ended September 30, 2008. The cash usage in the current nine month period of \$45.4 million relates to the debt exchange discussed below. The prior-year period cash usage was principally due to the January 2008 redemption, at par, of all \$200 million of the company's 7 7/8% senior notes due April 1, 2008.

At September 30, 2009, total debt was \$911.0 million, a decrease of \$149.6 million from December 31, 2008, principally due to the debt exchange discussed below.

On July 31, 2009, the company completed offers to exchange its 6 7/8% senior notes due 2010 (the 2010 Notes), its 8% senior notes due 2012 (the 2012 Notes), its 8 1/2% senior notes due 2015 (the 2015 Notes) and its 12 1/2% senior notes due 2016 (the 2016 Notes) in private placements for new 12 3/4% senior secured notes due 2014 (the First Lien Notes), new 14 1/4% senior secured notes due 2015 (the Second Lien Notes and, together with First Lien Notes, the New Secured Notes), shares of the company's common stock and cash. On that date, the company issued approximately \$385.0 million aggregate principal amount of First Lien Notes, approximately \$246.6 million aggregate principal amount of Second Lien Notes and approximately 5.2 million shares of common stock and paid \$30.0 million in cash in exchange for approximately \$235.1 million aggregate principal amount of 2010 Notes, approximately \$331.9 million aggregate principal amount of 2012 Notes, approximately \$134.0 million aggregate principal amount of 2015 Notes, and approximately \$59.4 million aggregate principal amount of 2016 Notes. The New Secured Notes are guaranteed by Unisys Holding Corporation, a wholly-owned Delaware corporation that directly or indirectly holds the shares of substantially all of the company's foreign subsidiaries, and by certain of the company's other current and future U.S. subsidiaries. The First Lien Notes and Second Lien Notes are secured by first-priority liens and second priority liens, respectively, (in each case, subject to permitted prior liens) by substantially all of the company's assets, except (i) accounts receivable that are subject to one or more receivables facilities, (ii) real estate located outside the U.S., (iii) cash or cash equivalents securing reimbursement obligations under letters of credit or surety bonds and (iv) certain other excluded assets. The company recognized a net gain of \$.5 million on the exchange in "Other income (expense), net" in the quarter ended September 30, 2009. As a result of the exchange, annual interest expense will increase by approximately \$23 million.

25

On May 16, 2008, the company entered into a three-year, U.S. trade accounts

Edgar Filing: UNISYS CORP - Form 10-Q

receivable facility. Under this facility, the company has agreed to sell, on an ongoing basis, through Unisys Funding Corporation I, a wholly owned subsidiary, up to \$150 million of interests in eligible U.S. trade accounts receivable. Under the facility, receivables are sold at a discount that reflects, among other things, a yield based on LIBOR subject to a minimum rate. The facility includes customary representations and warranties, including no material adverse change in the company's business, assets, liabilities, operations or financial condition. It also requires the company to maintain a minimum fixed charge coverage ratio and requires the maintenance of certain ratios related to the sold receivables. The facility will be subject to early termination if, as of February 28, 2010, the 2010 Notes have not been refinanced or extended to a date later than May 16, 2011. Other termination events include failure to perform covenants, materially incorrect representations and warranties, change of control and default under debt aggregating at least \$25 million. At September 30, 2009 and December 31, 2008, the company had sold \$118 million and \$141 million, respectively, of eligible receivables.

In addition, the company and certain international subsidiaries have access to uncommitted lines of credit from various banks.

At September 30, 2009, the company has met all covenants and conditions under its various lending and funding agreements. The company expects to continue to meet these covenants and conditions.

The company currently expects to make cash contributions of approximately \$100-\$105 million to its worldwide, primarily non-U.S., defined benefit pension plans in 2009, of which \$55.8 million has been made as of September 30, 2009. 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 2009.

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 covering \$1.1 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 identify 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:

THE COMPANY'S BUSINESS IS AFFECTED BY THE ECONOMIC AND BUSINESS ENVIRONMENT. The company's recent financial results have been impacted by the global economic slowdown. The company has seen this slowdown particularly in its financial services business but also in other key commercial industries, as

Edgar Filing: UNISYS CORP - Form 10-Q

clients reacted to economic uncertainties by reducing information technology spending. Decreased demand for the company's services and products has impacted its revenue and profit margins. If current economic conditions continue or worsen, including if the company's customers are unable to obtain financing to purchase the company's services and products due to tight credit conditions, the company could see further reductions in demand and increased pressure on revenue and profit margins. The company could also see a further consolidation of firms in the financial services industry, which could also result in a decrease in demand. In addition, during the recent period of disruption in the financial markets, the market price for the company's common shares has been volatile. 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.

26

THE COMPANY'S FUTURE RESULTS MAY DEPEND ON ITS ABILITY TO ACCESS EXTERNAL CREDIT MARKETS. The capital and credit markets have been experiencing extreme volatility and disruption. In addition, the commercial lending market has contracted, with limited new loan originations or refinancings taking place. Based on the current lending environment, the company expects to have difficulty accessing significant additional capital in the credit markets on acceptable terms. Given tight credit markets, along with the company's credit rating, the company did not replace its revolving credit facility that expired on May 31, 2009. Also, the company's ability to redeem or refinance the senior notes that remain outstanding after the closing of the exchange offers could be affected by credit market conditions. The turmoil and volatility in financial markets may also impact the company's ability to utilize surety bonds, letters of credit, foreign exchange derivatives and other financial instruments the company uses to conduct its business. Although the company intends to use cash on hand to address its liquidity needs, its ability to do so assumes that its operations will continue to generate sufficient cash and that its cash requirements will not materially exceed current estimates.

THE COMPANY HAS SIGNIFICANT PENSION OBLIGATIONS. The company has unfunded obligations under its U.S. and non-U.S. defined benefit pension plans. The company expects to make cash contributions of approximately \$100-\$105 million to its worldwide, primarily non-U.S., defined benefit pension plans in 2009. 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 2009. In addition, under IRS regulations issued in March 2009, the company currently believes that it will not be required to fund its U.S. qualified defined benefit pension plan in 2010. A further 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 TURNAROUND PROGRAM. Over the past several years, the company has implemented and is continuing to implement, significant cost-reduction measures intended to achieve profitability. 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

Edgar Filing: UNISYS CORP - Form 10-Q

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 FACES AGGRESSIVE COMPETITION IN THE INFORMATION SERVICES AND TECHNOLOGY MARKETPLACE. 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 FACES 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.

27

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 IN PART ON ITS ABILITY TO GROW OUTSOURCING. 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

Edgar Filing: UNISYS CORP - Form 10-Q

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 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 improvement in the utilization of services delivery personnel and on the company's ability to work through disruptions in this business related to the turnaround program. 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 suffer. 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.

FUTURE RESULTS WILL ALSO DEPEND, IN PART, ON MARKET DEMAND FOR THE COMPANY'S HIGH-END ENTERPRISE SERVERS AND MAINTENANCE ON THESE SERVERS. In the company's technology business, high-end enterprise servers and maintenance on these servers continue to experience secular revenue declines. 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, in part, on customer acceptance of ClearPath systems and the company's ability to maintain its installed base for ClearPath and to develop next-generation ClearPath products that are purchased by the installed base. Future results of the technology business will also depend, in part, on the successful execution of the company's arrangements with NEC.

28

THE COMPANY'S CONTRACTS WITH U.S. GOVERNMENTAL AGENCIES MAY BE SUBJECT 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

Edgar Filing: UNISYS CORP - Form 10-Q

to a specific contract or any amounts improperly billed for products or services will be subject to reimbursement to the government. If an audit uncovers 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.

THE COMPANY'S CONTRACTS MAY NOT BE AS PROFITABLE AS EXPECTED OR PROVIDE THE EXPECTED LEVEL OF REVENUES. A number of the company's long-term contracts for infrastructure services, outsourcing, help desk and similar services do not provide for minimum transaction volumes. As a result, revenue levels are not guaranteed. In addition, some of these contracts may permit customer termination or may 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 and provide for a downward adjustment to those prices if the pricing for similar services in the market has changed. As a result, anticipated revenues from these contracts may decline.

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. At times the company has experienced problems in performing some of these fixed-price contracts on a profitable basis and has provided periodically for adjustments to the estimated cost to complete them. Future results will depend on the company's ability to perform these services contracts profitably.

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. 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.

29

THE COMPANY IS SUBJECT TO THE RISKS OF DOING BUSINESS INTERNATIONALLY. More than half of the company's total revenue is derived from international

Edgar Filing: UNISYS CORP - Form 10-Q

operations. The risks of doing business internationally include foreign currency exchange rate fluctuations, 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.

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. Current adverse credit conditions could also affect the company's ability to consummate divestments 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'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 and intellectual property. See note (k) 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 affected in any particular period by the resolution of one or more of the legal matters pending against it.

Edgar Filing: UNISYS CORP - Form 10-Q

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, 2008.

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 of September 30, 2009. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective for gathering, analyzing and disclosing the information the Company is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. Such evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2009 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 (1) 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

31

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

Edgar Filing: UNISYS CORP - Form 10-Q

undersigned thereunto duly authorized.

UNISYS CORPORATION

Date: October 30, 2009

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 Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999)
3.2	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 dated October 23, 2009).
3.2	Bylaws of Unisys Corporation, as amended through December 6, 2007 (incorporated by reference to Exhibit 3 to the registrant's Current Report on Form 8-K dated December 6, 2007)
4.1	Indenture, dated as of July 31, 2009, among Unisys Corporation, the Subsidiary Guarantors named therein and Deutsche Bank Trust Company Americas, as trustee, including the form of 12 3/4% Senior Secured Notes due 2014 (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K dated July 31, 2009).
4.2	Indenture, dated as of July 31, 2009, among Unisys Corporation, the Subsidiary Guarantors named therein and Deutsche Bank Trust Company Americas, as trustee, including the form of 14 1/4% Senior Secured Notes due 2015.
4.3	Second Supplemental Indenture, dated as of July 30, 2009, between Unisys Corporation and HSBC Bank USA, National Association, as trustee (incorporated by reference to Exhibit 4.3 to the registrant's Current Report on Form 8-K dated July 31, 2009).
10.1	Collateral Trust Agreement, dated as of July 31, 2009, among Unisys Corporation, the Subsidiary Guarantors named therein and Deutsche Bank Trust Company Americas, as collateral trustee (incorporated by

Edgar Filing: UNISYS CORP - Form 10-Q

reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated July 31, 2009).

- 10.2 Priority Lien Pledge and Security Agreement, dated as of July 31, 2009, among Unisys Corporation, the Subsidiary Guarantors named therein and Deutsche Bank Trust Company Americas, as collateral trustee, including forms of trademark, copyright and patent security agreements (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K dated July 31, 2009).
- 10.3 Junior Lien Pledge and Security Agreement, dated as of July 31, 2009, among Unisys Corporation, the Subsidiary Guarantors named therein and Deutsche Bank Trust Company Americas, as collateral trustee, including forms of trademark, copyright and patent security agreements (incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K dated July 31, 2009).
- 10.4 Registration Rights Agreement, dated as of July 31, 2009, among Unisys Corporation, Goldman, Sachs & Co., Banc of America Securities LLC, and Deutsche Bank Securities Inc.12 (incorporated by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K dated July 31, 2009).
- 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